EXHIBIT F

Puerto Rico Infrastructure Financing Authority Basic Financial Statements and Required Supplementary Information, Fiscal Year Ended June 30, 2016

Puerto Rico Infrastructure Financing Authority

(A Component Unit of the Commonwealth of Puerto Rico)

Basic Financial Statements
and Required Supplementary Information
For the Fiscal Year Ended June 30, 2016

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PUERTO RICO INFRASTRUCTURE FINANCING AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
Basic Financial Statements, and Required Supplementary Information
For the Fiscal Year Ended June 30, 2016

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INDEPENDENT AUDITORS' REPORT

To: The Board of Directors of the
Puerto Rico Infrastructure Financing Authority

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Puerto Rico Infrastructure Financing Authority, a Component Unit of the Commonwealth of Puerto Rico, as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements which collectively comprise the Puerto Rico Infrastructure Financing Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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Basis for Qualified Opinion

The Puerto Rico Infrastructure Financing Authority's full time employees participate in a cost-sharing defined benefit program, which is administered by the Employees' Retirement System of the Commonwealth of Puerto Rico, a Statutory Trust and Component Unit of the Commonwealth of Puerto Rico. The Puerto Rico Infrastructure Financing Authority was required to adopt Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment to GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68*, that were effective for fiscal years beginning after June 15, 2014. However, the adoption of GASB Statements No. 68 and 71 requires the Puerto Rico Infrastructure Financing Authority to obtain, from the Employees' Retirement System of the Commonwealth of Puerto Rico, technical information regarding actuarial valuations, discount rates, the Puerto Rico Infrastructure Financing Authority's proportionate share of the net pension liability, and deferred outflows and inflows of resources related to pension costs.

As of June 30, 2016, the Employees' Retirement System of the Commonwealth of Puerto Rico did not provide the required information described above, therefore, the Puerto Rico Infrastructure Financing Authority was unable to adopt the requirements of GASB Statements No. 68 and 71. Consequently, the accompanying financial statements do not contain any adjustments that may be necessary, neither the disclosures and supplementary information required by GASB Statements No. 68 and 71.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinions paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of each major fund of the Puerto Rico Infrastructure Financing Authority as of June 30, 2016 and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Uncertainty

The accompanying financial statements have been prepared assuming the Authority will continue as a going concern.

As of June 30, 2016, the Authority's government-wide statement of net position (deficit) reflect a net deficit of approximately $1.8 billion in its governmental activities. Such deficit is mostly attributed to the recognition of certain liabilities, including bonds and loans payable aggregating approximately $2 billion that are not payable with current expendable resources. As described in Note 3 to the accompanying financial statements, this situation occurs because the Authority's normal operations is to acquire and/or construct capital assets that will be transferred to other Commonwealth of Puerto Rico's agencies or other Component Units. The acquisition is mainly conducted through the issuance of long term debt that is funded by the Commonwealth of Puerto Rico with future appropriations. Accordingly, the Authority is completely dependent from the Commonwealth of Puerto Rico to pay its long term debt and effectively reverse its deficit position.

The Commonwealth of Puerto Rico has been immersed into a severe and prolonged fiscal, economic and liquidity crisis, which has resulted in the issuance of a series of laws and executive orders that have significantly impacted the Authority. As a result, the Authority has not been able to pay the debt service of its long term debt.

On December 1, 2015, the Governor of the Commonwealth of Puerto Rico signed Executive Order No. OE-2015-46, which permitted the Commonwealth of Puerto Rico to redirect certain revenues in light of the Commonwealth of Puerto Rico's revised revenue estimates and its deteriorating liquidity situation. Pursuant to the Executive Order, certain available revenue that have been budgeted to pay debt service on the debt of the Authority were redirected, pursuant to the constitutional requirements (the claw back provision), to pay debt issued or guaranteed by the Commonwealth of Puerto Rico. In connection with such provision, the Secretary of the Puerto Rico Department of Treasury retained, for the application to payments due on the Commonwealth's public debt, approximately $113 million assigned to pay debt of the Authority. As a result, the Authority did not transfer sufficient funds to the Trustee to make the $35.9 million in interest payment in full in respect of the January 1, 2016 payment date for its outstanding Series 2005A-C and Series 2006 Special Tax Revenue Bonds.

On April 6, 2016, the Legislature of the Commonwealth of Puerto Rico enacted the Act Number 21, *Emergency Moratorium and Financial Rehabilitation Act* (the Moratorium Act). Among other provisions of the Moratorium Act, it authorized the Governor to declare a moratorium on debt service payments for a temporary period for the Commonwealth and its instrumentalities and, stay creditor remedies that may result from the moratorium.

On April 30, 2016, the Governor signed the Executive Order 2016-014 declaring the Authority in a state of emergency and providing for a moratorium on the payment of certain Authority's obligations. The Authority's debt service payments in moratorium amounts to approximately $114 million as of June 30, 2016.

On June 30, 2016, the President of the United States of America signed into law the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA). As permitted by PROMESA, a Financial Management and Oversight Board was created with broad powers over the Commonwealth of Puerto Rico and its instrumentalities, including the power to approve the fiscal plans, budgets, voluntary agreements with bondholders, debt restructuring plans, and critical projects eligible for expedited permitting processes. While it is expected that the approval of the PROMESA may have a significant impact over the future of the Authority, the final effect could not be presently determined.

Also, as described in Note 12, during the year ended June 30, 2016, the Authority did not receive appropriations from the Commonwealth of Puerto Rico to pay the principal and interest due on the PFC loan.

All such events create a high level of uncertainty about the Authority's ability to continue as a going concern. The financial statements do not include any adjustment that may result from this uncertainty. Our opinion is not modified with respect to this matter.

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Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 to 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

San Juan, Puerto Rico
February 16, 2017

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Stamp No. E266538 was affixed
to the original of this report.

This section presents a narrative overview and analysis of the financial performance of the Puerto Rico Infrastructure Financing Authority (the Authority) and is designed to assist the reader in focusing on significant financial issues, provide an overview of the Authority's financial activity, identify changes in the Authority's financial position, and identify individual issues or concerns. The information presented here should be read in conjunction with the basic financial statements, including the notes thereto.

1. FINANCIAL HIGHLIGHTS

- During the year ended June 30, 2016, the restricted investment in bonds of Puerto Rico Sales Tax Financing Corporation (COFINA, for its acronym in Spanish) reported a recovery of its fair value of approximately $45 million.

- Capital assets reflected a net increase of approximately $7.8 million primarily due to construction projects executed through the "Paseo Puerta de Tierra" and "Malecones y Poblados" infrastructure programs, which are financed with legislative appropriations from the Commonwealth of Puerto Rico and improvements to the World Plaza Building.

- Total liabilities reflected a decrease of approximately $153 million primarily due to principal payments of bonds and notes payable made during the fiscal year amounting $194.8 million, net of an increase in bonds and notes payable as a result of the net amortization of discounts/premiums of approximately $21.5 million, and an increase in accrued interest of $28 million.

- The Commonwealth's Department of Treasury issued the Circular Letter No.1300-08-17 declaring that GDB's management understand that there is substantial doubt as to GDB's ability to continue as a going concern and required an impairment analysis over funds deposited in GDB. As a result, the basic financial statements includes an impairment loss on deposits of $39.7 million, of which $6.7 million are reflected as a reduction of payable as such portion represented cash held as a custodian.

- The Commonwealth's government faces severe fiscal challenges and has been unable to pay its obligations on time. On April 2016, the Legislature enacted an emergency act (Act 21 of 2016) stating that the Puerto Rican government's fiscal condition "is more dire than at any other point in its history" and that "depleted resources and strained liquidity threaten to bind the Commonwealth to a choice between honoring its commitments to bondholders or continuing to provide the residents of Puerto Rico with essential services." Based on the provisions of the abovementioned Act, on May 2016, the Governor declared a moratorium on certain debt payments. As a result, the Authority has payments of interest in arrears as of June 30, 2016 of approximately $25 million.

2. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is required supplementary information to the basic financial statements and is intended to serve as an introduction to the basic financial statements of the Authority. The basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements and, (3) notes to the basic financial statements.

Government-wide Financial Statements - The government-wide financial statements provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business. The statements provide both short and long-term information about the Authority's financial position, which assists in assessing the Authority's economic condition at the end of the fiscal year. These are prepared using the economic resources measurement focus and the accrual basis of accounting. This basically means they follow methods that are similar to those used by private nongovernmental organizations. They take into account all revenue and expenses connected with the fiscal year even if cash involved has not been received or paid.

The government-wide financial statements include two statements:

- ***Statement of Net Position (Deficit)*** – This statement presents all of the government's assets, liabilities and deferred outflows and inflows of resources. Net position (deficit) is the difference between (a) assets and deferred outflows of resources, and (b) liabilities and deferred inflows of resources. Over time, increases or decreases in the Authority's net position (deficit) may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

- ***Statement of Activities*** – This statement presents information showing how the Authority's net position (deficit) changed during the most recent fiscal year. All changes in net position (deficit) are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

These financial statements present the following columns segregated by activities:

- ***Governmental Activities*** – These activities are mostly supported by intergovernmental revenue (Contributions from the Commonwealth of Puerto Rico). Most services normally associated with the Authority fall into general government, economic development, education, aqueduct and sewers, transportation, recreation and sports, and arts and entertainment.

- ***Business Type Activities*** – These activities are normally intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. The business type activities of the Authority include the operations of the World Plaza Building.

The government-wide financial statements can be found immediately following this Management's Discussion and Analysis.

Fund Financial Statements – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority has two types of funds: Governmental Funds and Proprietary Funds. Governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Authority's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements.

By doing so, readers may better understand the long-term impact of financial decisions related to the Authority's governmental activities. Both, the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances, provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Governmental Funds Financial Statements – The Authority has four major governmental funds. Each major fund is presented in a separate column in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances (deficit). The Authority's four major governmental funds are:

- General Fund
- ARRA Fund
- Capital Projects Fund
- Debt Service Fund

Proprietary Funds Financial Statements – These funds are used to show activities that operate more like those of commercial enterprises. Because these funds charge fees for services provided to outside customers, including local governments, they are known as enterprise funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Like the government-wide financial statements, proprietary fund financial statements use the accrual basis of accounting. There is no reconciliation needed between the government-wide financial statements for business-type activities and the proprietary fund financial statements. The basic proprietary funds financial statements can be found immediately following the governmental fund financial statements.

Notes to the Basic Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide financial statements and the fund financial statements.

3. GOVERNMENT-WIDE FINANCIAL ANALYSIS

Governmental entities are required by accounting principles generally accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standard Board (GASB), to report on their net position (deficit). The Statement of Net Position (Deficit) presents the value of all of the Authority's assets and deferred outflow of resources, and liabilities and deferred inflow of resources, with the difference between them reported as net position (deficit).

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Puerto Rico Infrastructure Financing Authority
(A Component Unit of the Commonwealth of Puerto Rico)
Management's Discussion and Analysis
As of and for the Fiscal Year Ended June 30, 2016

The following was derived from the Statement of Net Position (Deficit) as of June 30, 2016, and 2015:

	Governmental Activities				Business Type Activities			
	2016	2015	Change	Percentage	2016	2015	Change	Percentage
Assets:								
Current assets	$ 4,796,976	$ 12,197,654	$ (7,400,678)	-60.7%	$ 1,404,897	$ 3,533,135	$ (2,128,238)	-60.2%
Capital assets, net	40,386,928	34 207,546	6,179,382	18.1%	28,175,530	26,537,486	1,638,044	6.2%
Noncurrent assets	210,452,090	301,414,260	(90,962,170)	-30.2%	-	-	-	0.0%
Total assets	255,635,994	347,819,460	(92,183,466)	-26.5%	29,580,427	30,070,621	(490,194)	-1.6%
Deferred outflow of resources	43,605,266	47,239,568	(3,634,302)	-7.7%	-	-	-	0.0%
Liabilities:								
Liabilities due within one year	265,464,917	278,027,904	(12,562,987)	-4.5%	44,707,631	3,980,949	40,726,682	1023.0%
Liabilities due after one year	1,854,796,821	1,999,690,227	(144,893,406)	-7.2%	-	37,361,150	(37,361,150)	-100.0%
Total liabilities	2,120,261,738	2,277,718,131	(157,456,393)	-6.9%	44,707,631	41,342,099	3,365,532	8.1%
Net position / deficit:								
Net investment in capital assets	40,386,928	34,207,546	6,179,382	18.1%	(1,185,620)	(2,823,664)	1,638,044	-58.0%
Restricted for:								
Debt Service	(13,101,737)	150,319,304	(163,421,041)	-108 7%	-	-	-	0.0%
Other purposes	95,863,322	50,827,736	45,035,586	88.6%	-	-	-	0.0%
Unrestricted / (Deficit)	(1,944,168,991)	(2,118,013,689)	173,844,698	-8.2%	(13,941,584)	(8,447,814)	(5,493,770)	65.0%
Total net position (deficit)	$ (1,821,020,478)	$ (1,882,659,103)	$ 61,638,625	-3.3%	$ (15,127,204)	$ (11,271,478)	$ (3,855,726)	34.2%

In overall, the Authority's deficit decreased by approximately $57.8 million, or 3.1% mainly as a result of an increase in the fair value of COFINA Bonds or approximately $45 million and an excess of other revenues over expenses during the year of approximately $12.8 million.

Total assets of governmental activities decreased by approximately $92.2 million, or 26.5%, mainly driven by a reduction in restricted cash and cash equivalents of $122.8 million (including an impairment loss in deposits held by GDB of $30 million), a recovery of the market value of the investment in COFINA Bonds of approximately $45 million and the increase in capital assets of approximately $6.2 million mainly due to construction in progress.

The deficit in business-type activities increased by approximately $3.9 million, or 34.2%, from approximately $11.3 million in 2015 to approximately $15.1 million in 2016. The increase was caused primarily by the net effect of an impairment in deposits in GDB of approximately $3 million and other net increases in liabilities.

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Condensed program net revenues or expenses and changes in net position (deficit) are presented below:

	Governmental Activities				Business-Type Activities			
	2016	2015	Change	Percentage	2016	2015	Change	Percentage
Revenues:								
Program revenues:								
Operating grants and contributions	$ 185,465,509	$ 180,416,453	$ 5,049 056	2.8%	$ -	$ 1 063,295	$ (1,063,295)	-100.0%
Charges for services	2,615,189	2,734,414	(119,225)	-4.4%	5,616,317	2,566 777	3,049,540	118.8%
Gains (losses) on investments	45,035,586	(84,016,115)	129,051,701	-153.6%	-	-	-	-
General revenues								
Investment earnings	280,139	298,237	(18,098)	-6.1%	3,135	3,839	(704)	-18.3%
Other	-	-	-	0.0%	444,300	-	444,300	100.0%
Total revenues	233,336,423	99,432,989	133,963,434	134 7%	6,063,752	3,633,911	2,429,841	66.9%
Expenses:								
Functions/Programs:								
General government	3,951,970	3,540,318	411,652	11.6%	-		-	0.0%
Contribution to Puerto Rico Highway and Transportation Authority	-	227,670,000	(227,670,000)	-100.0%	-		-	0.0%
Education, aquaduct and sewers, and transportation	690,749	1,317,422	(626,673)	-47 6%	-		-	0.0%
Economic development program	2,935,621	3,131,014	(195,193)	-6.2%	-	-	-	0.0%
Recreation and sports	11,919,274	500,014	11,419,260	2283.8%	-	-	-	0.0%
Edifications	4,585,204	-	4,585,204	100.0%	-	-	-	
Arts and entertainment	45,514	155,756	(110,242)	-70.8%	-	-	-	0.0%
Public safety	46 117	-	46,117	100.0%	-	-	-	0.0%
Weatherization program	1,723,959	11,842	1,712,117	14458.0%	-	-	-	0.0%
Impairment loss on deposits	30,048,890	-	30,048,890	100.0%	2,991,050	-	2,991,050	100.0%
Interest on long-term debt	115,810,300	98,496,134	17,314,166	17.6%	-	-	-	0.0%
World Plaza Building	-	-	-	0.0%	6,928,428	5,750,452	1,177,976	20.5%
Total expenses	171,757,798	334 822,500	(163,064,702)	-48.7%	9,919,478	5,750,452	4,169,026	72.5%
Increase (decrease) in net position before transfers	61,636,625	(235,389,511)	297,026,136	-126 2%	(3,855,726)	(2,116,541)	(1,739,185)	82.2%
Transfers	-	(473,377)	473,377	-100.0%	-	473,377	(473,377)	-100.0%
Increase (decrease) in net position	61,636,625	(235,862,888)	297,501,513	-226.19%	(3,855,726)	(1,643,164)	(2,212,562)	134.7%
Beginning deficit	(1,882,659,103)	(1,646,796,215)	(235,862,888)	14 3%	(11,271,478)	(9,628,314)	(1,643,164)	17.1%
Ending deficit	$ (1,821,020,478)	$ (1,882,659,103)	$ 61,636,625	-3 3%	$ (15,127,204)	$ (11,271,478)	$ (3,855,726)	34.2%

Governmental Activities

Revenues – Total revenues increased approximately $134.0 million or 134.7% mainly because of a recovery of the market value of approximately $45 million in the restricted investment in COFINA's bonds. In 2015, this investment experienced a holding loss of approximately $84 million. Contributions from the Commonwealth of Puerto Rico increased by approximately $5 million particularly due to the appropriations of funds for the construction of the "Paseo Puerta de Tierra" and "Malecones y Poblados" projects, which are financed with legislative appropriations from the Commonwealth of Puerto Rico.

Expenses – Total expenses decreased approximately $193.1 million or 57.7% mainly due to a reduction in contributions to other governmental entities. In 2015, contributions to governmental entities amounted to approximately $227.7 million. Governmental activities includes an impairment loss on deposits in GDB of approximately $30 million.

Business-type Activities

Revenues – Revenues increased approximately $1.9 million or 54.6%, mainly due to the increase in occupancy in the World Plaza Building during the current year, and an insurance settlement of $444 thousand due to a fire in the World Plaza Building in 2013.

Expenses – Total expenses increased approximately $1.1 million or 20.5%, mainly due to an increase in operating expenses. Business-type activities includes an impairment loss on deposits in GDB of approximately $3 million.

4. GOVERNMENTAL FUNDS RESULTS

General Fund – Total assets in the general fund increased approximately $34.7 million as a direct result of the positive investment yield of the restricted non-spendable investments that had a fair value of approximately $50.8 million in 2015, to approximately $5.9 million in 2016. Cash and cash equivalents decreased mainly due to the recognition of an impairment in funds deposited in GDB of approximately $39.7 million, of which approximately $6.7 million were related to cash held as custodian of funds from other governmental entities. The fund balance increased from approximately $56 million in 2015 to approximately $99.3 million in 2016, or 77%, specifically due to the increase in the fair value of the investment.

Revenues in the general fund increased from approximately $33.5 million to approximately $49.4 million directly by the effect of the valuation of the nonspendable investment. Investment loss during 2015 was approximately $84 million, while in 2016, there was a net investment income of approximately $45 million. General government expenditures of $3.8 remained similar to 2015. This, due to cost control measures implemented for the administrative and operating expenses of the Authority.

ARRA Fund – The ARRA federal program reached its sunset date during 2012. During recent years, its activities were very limited. During the year ended June 30, 2016, the operations were limited to oversight and monitoring works as established by Act No. 8 of 2009. Since 2009, the Authority has funded this program through a line of credit granted by GDB which will be paid through Commonwealth's appropriatons. For the year ended June 30, 2016, and due to the maturity of the line of credit, management recognized its current obligation to pay the principal of approximately $7.2 million and the related accrued interest of $1.7 million. Amounts due from Commonwealth of approximately $8.9, and related to required appropriations from the Comonwealth to pay the line of credit obligation were recognized as restricted assets in the balance sheet and as contributions from Commonwealth in the statement of revenues and changes in fund balances.

Capital Projects Fund – Total assets decreased from approximately $84.6 in 2015 million to approximately $54.6 million in 2016, or 34.5%. This reduction is mainly related to an impairment of deposits in GDB of approximately $27 million. During the year, the Authority carries out construction of facilities for the benefit of other governmental entities. Due from other governmental entities (including the Commonwealth) decreased in approximately $9.6 million, when compared to previous year.

Total liabilities decreased from approximately $54.1 million in 2015 to approximately $47.9 million in 2016 or 12%. The decrease in mainly related to a reduction in accounts payable and accrued liabilities of approximately $6.2 million. Total revenue increased from approximately $19 million in 2015 to approximately $30 million in 2016, for an increase of approximately $11 million, or 60%, mainly driven by an increase in contribution from the Commonwealth of Puerto Rico. This increase resulted because some infrastructure programs funded by the Commonwealth of Puerto Rico started or were in progress during the fiscal year.

Debt Service Fund – Total assets decreased from approximately $119.8 million in 2015 to approximately $16.1 million in 2016, resulting in a decrease of approximately $104 million, or 87%. This, due to a non-appropriation of funds by the Commonwealth for the repayment of principal and interest on long term liabilities.

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Puerto Rico Infrastructure Financing Authority
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5. CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Non-depreciable capital assets represent construction work in progress, including land in which infrastructure projects are or will be developed. Depreciable assets include furniture and equipment, vehicles and building. The following is a schedule of the Authority's capital assets activity:

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	$ 6,868,328	$ 6,868,327	$ 4,438,534	$ 4,438,534	$ 11,306,862	$ 11,306,861
Construction in progress	33,479,472	27,286,847	-	1,184,355	33,479,472	28,471,202
Building	-	-	22,561,474	22,561,474	22,561,474	22,561,474
Building improvements	-	-	3,516,368	99,802	3,516,368	99,802
Furniture and equipment	1,037,621	1,029,142	460,252	235,594	1,497,873	1,264,736
Vehicles	57,692	57,692	-	-	57,692	57,692
Total capital assets	41,443,113	35,242,008	30,976,628	28,519,759	72,419,741	63,761,767
Less accumulated depreciation and amortization	1,056,185	1,034,462	2,801,098	1,982,273	3,857,283	3,016,735
Capital assets - net	$ 40,386,928	$ 34,207,546	$ 28,175,530	$ 26,537,486	$ 68,562,458	$ 60,745,032

Overall capital assets change of approximately $7.8 million was driven by an increase in construction work in process of $21.6 million, the transfer of completed projects with accumulated costs of $15.4 million to other governmental entities and improvements to the World Plaza Building amounting to $2.2 million approximately.

Debt Outstanding

As of June 30, 2016, the Authority had approximately $2,032 million in long-term liabilities, mainly composed of approximately $1,979 million of bonds payable, net of premiums and discounts. Total long-term liabilities include bonds and loans payable, termination benefits, and accrued compensated absences. In overall, long-term debt decreased by approximately $180 million, as a result of the repayment of approximately $195 million of bonds, and the net effect of the discount accretion and amortization of premiums of approximately $21 million.

6. CURRENTLY KNOWN FACTS

PFC Notes

The Authority defaulted in the principal and interest payments due during fiscal year 2016 on the PFC Notes described in Note 12 due to a non-appropriation of funds for the payment in the annual budget of the Commonwealth.

Investments

On July 1, 2015, Moody's Investors Service lowered its rating on the investments held by the Authority in GDB senior notes from Caa2 to Caa3 with a negative outlook.

On July 14, 2015, Standard & Poor's Investor Services (S&P) lowered its rating on the investments held by the Authority in GDB senior notes from CCC- to CC and COFINA subordinate-lien bonds from A+ to CCC-. In addition, on September 10, 2015 S&P lowered its rating on the Commonwealth's tax-backed from CCC- to CC.

Executive Order

On December 1, 2015, the Governor signed Executive Order No. OE-2015-046, which provides that the Commonwealth will begin to redirect certain revenues of the Authority that have been budgeted to pay debt service of certain debt of the Authority to pay debt issued or guaranteed by the Commonwealth. (See Note 11 for further details).

Default

Due to the implementation of the Executive Order mentioned above, the Authority did not transfer sufficient funds to the Trustee to make the $35.9 million in interest payment full in respect of the January 1, 2016 payment date for its outstanding bonds. (See Note 10 for further details).

Emergency Moratorium and Financial Rehabilitation Act

On April 6, 2016, the Legislature enacted the Act Number 21 "Emergency Moratorium and Financial Rehabilitation Act". The Act provides for the following: (a) authorizes the Governor to declare a moratorium on debt service payments for a temporary period for the Commonwealth, GDB, the Economic Development Bank for Puerto Rico (EDB) or any of the remaining government instrumentalities of Puerto Rico and, stay creditor remedies that may result from the moratorium; (b) amend GDB's Enabling Act to give GDB options and tools that it may need to address its own resolution (these amendments (a) modernize GDB's Organic Act related to a receivership for GDB, and authorize the creation of a temporary "bridge" bank to carry on certain of GDB's functions and honor deposits; (c) amends the Enabling Act of the EDB to modernize its receivership provisions and; (d) create a new fiscal agency and financial authority. As a result, on April 30, 2016, the Governor signed the Executive Order 2016-014 declaring the Authority in an emergency state and providing for a moratorium on the payment of certain Authority's obligations. Authority's debt service payments in moratorium amounted approximately $161 million. (See Note 11 for further details).

Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA)

On June 30, 2016, President Obama signed into law the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA). The Act would create a structure for exercising federal oversight over the fiscal affairs of territories. PROMESA would: (a) establish an Oversight Board with broad powers of budgetary and financial control over Puerto Rico; (b) create procedures for adjusting debts accumulated by the Puerto Rico government and its instrumentalities and potentially for debts of other territories. Other diverse provisions of the Act include the Puerto Rico's right to determine its future political status is affirmed, the authority of the Governor, with board approval, to reduce the minimum wage for most workers in Puerto Rico under the age of 25 for a four-year period, an automatic stay on litigation, and accelerated processes for the review and permitting of infrastructure projects designated as "Critical Projects."

Act 74 of 2016

Act 74 of 2016 was enacted on July 20, 2016. Under the Act, GDB is authorized to consolidate its investment in loans corresponding to financing and obligations granted to governmental entities of the Commonwealth of Puerto Rico, which are payable, under various laws, of legislative appropriations, whose total value in GDB books as of December 31, 2015, including accrued interest at the same date, amounts to approximately $4,366 million; to authorize GDB to restructure such consolidated borrowings into a single loan and to reduce the GDB's investment in loans from approximately $4,366 million to the value in the Bank's books in a new loan restructured to a term of thirty five (35) years at an interest rate of five (5) percent per annum; to establish the terms of repayment of the consolidated loan; to provide that no department, agency, public corporation or instrumentality of the Commonwealth of Puerto Rico may take additional financing or of any class based on the laws or legal authority that authorized the loans that, through this measure, are consolidated and restructured; to Authorize the Bank to terminate the loan agreements related to the original loans, which by this Law will be consolidated and restructured into a single loan in accordance with the provisions thereof; and, for other related purposes. Authority's loans payable to GDB subject to consolidation amounted to approximately $55.9 million as of July 20, 2016 (See Note 12 for further details).

Act 5 of 2017

On January 2017, the Governor of the Commonwealth of Puerto Rico signed into law The "Puerto Rico Financial Emergency and Fiscal Responsibility Act" (the Act) declaring an emergency period commencing on the effective date of the Act and ending upon May 1, 2017. During such period, the Act granted the Governor powers to assure services essentials to the public, health, safety and welfare of the residents of Puerto Rico. The Act also provides that the Governor shall pay debt service to the extent possible after all essential services of the Commonwealth of Puerto Rico have been provided for or ordered to do so by the Oversight Board created under PROMESA or any other board created under federal law. The Act is intended to facilitate and encourage a voluntary negotiation process under PROMESA, between the Governor and/or the Puerto Rico Fiscal Agent, and Financial Advisory Authority, on behalf of the Government of Puerto Rico, and the creditors of the Government of Puerto Rico and its instrumentalities (See Note 25 for further details).

Downgrade

On January 5, 2016, Standard & Poor's Rating Services lowered its rating on the Authority bonds secured by federal rum taxes.

7. REQUEST FOR INFORMATION

This financial report is designed to provide all interested with a general overview of the Authority's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Puerto Rico Infrastructure Financing Authority, PO Box 41207, Minillas Station, San Juan, PR 00940.

RSM

Puerto Rico Infrastructure Financing Authority
(A Component Unit of the Commonwealth of Puerto Rico)
Statement of Net Position (Deficit)
June 30, 2016

	Governmental Activities	Business-type activities	Total
ASSETS:			
Cash in GDB	$ 997,073	$ 549,643	$ 1,546,716
Cash and cash equivalents in other financial institutions	987,888	620,772	1,608,660
Accounts receivable, net	316,203	1,462,455	1,778,658
Due from Commonwealth of Puerto Rico	1,018,275	-	1,018,275
Internal balances	1,455,910	(1,455,910)	-
Prepaid expenses and other assets	21,627	227,937	249,564
Due from GDB	18,498	-	18,498
Other	23,481	-	23,481
Restricted assets:			
Cash in GDB	2,504,450		2,504,450
Cash and cash equivalents in other financial institutions	48,194,379	-	48,194,379
Accrued interest receivable	1,268	-	1,268
Investments and investment contracts	99,629,522	-	99,629,522
Due from Commonwealth of Puerto Rico	12,979,170	-	12,979,170
Due from Municipality of San Juan	381,956	-	381,956
Due from other governmental entities	11,019,366	-	11,019,366
Net investment in direct financing lease	35,700,000	-	35,700,000
Capital assets, net:			
Non-depreciable:			
Land	6,868,328	4,438,534	11,306,862
Construction in progress	33,479,472	-	33,479,472
Depreciable, net	39,128	23,736,996	23,776,124
Total assets	255,635,994	29,580,427	285,216,421
DEFERRED OUTFLOWS OF RESOURCES:			
Deferred charges on debt refunding	43,605,266	-	43,605,266
Total deferred outflows of resources	43,605,266	-	43,605,266
LIABILITIES AND NET POSITION / (DEFICIT)			
Liabilities:			
Accounts payable and accrued expenses:			
Due in one year	1,747,605	1,686,562	3,434,167
Due in more than one year	174,040	-	174,040
Liabilities payable from restricted assets:			
Accounts payable and accrued expenses	57,015,654	-	57,015,654
Accrued interest payable	65,093,656	5,659,919	70,753,575
Due to the Commonwealth of Puerto Rico	1,459,020	-	1,459,020
Bonds and loans payable:			
Due in one year	140,148,982	37,361,150	177,510,132
Due in more than one year	1,854,622,781	-	1,854,622,781
Total liabilities	2,120,261,738	44,707,631	2,164,969,369
NET POSITION (DEFICIT):			
Net investment in capital assets	40,386,928	(1,185,620)	39,201,308
Restricted for:			
Debt service	(13,101,737)	-	(13,101,737)
Other purposes	95,863,322	-	95,863,322
Unrestricted	(1,944,168,991)	(13,941,584)	(1,958,110,575)
TOTAL NET POSITION (DEFICIT)	$ (1,821,020,478)	$ (15,127,204)	$ (1,836,147,682)

The accompanying notes are an integral part of this basic financial statement.

RSM

Puerto Rico Infrastructure Financing Authority
(A Component Unit of the Commonwealth of Puerto Rico)
Statement of Activities
For the Fiscal Year Ended June 30, 2016

		Program Revenues			Net (expense) revenue and changes in net position / (deficit)		
FUNCTIONS / PROGRAMS	Expenses	Operating Grants and Contributions	Charges for Services	Gain on Investment	Governmental Activities	Business - Type Activities	Total
GOVERNMENTAL ACTIVITIES:							
General government	$ 3,951,970	$ 176,612,759	$ 2,615,189	$ 45,035,586	$ 220,311,564	$ -	$ 220,311,564
Education, aqueduct and sewers, and transportation	690,749	-	-	-	(690,749)	-	(690,749)
Economic development program	2,935,821	-	-	-	(2,935,821)	-	(2,935,821)
Recreation and sports	11,919,274	-	-	-	(11,919,274)	-	(11,919,274)
Edifications	4,585,204	-	-	-	(4,585,204)	-	(4,585,204)
Arts and entertainment	45,514	-	-	-	(45,514)	-	(45,514)
Public safety	46,117	-	-	-	(46,117)	-	(46,117)
ARRA programs	1,723,959	8,852,750	-	-	7,128,791	-	7,128,791
Impairment loss on deposits held in GDB	30,048,890	-	-	-	(30,048,890)	-	(30,048,890)
Interest on long-term debt	115,810,300	-	-	-	(115,810,300)	-	(115,810,300)
Total governmental activities	171,757,798	185,465,509	2,615,189	45,035,586	61,358,486	-	61,358,486
BUSINESS - TYPE ACTIVITIES:							
World Plaza Building	9,919,478	-	5,616,317	-	-	(4,303,161)	(4,303,161)
Total	$ 181,677,276	$ 185,465,509	$ 8,231,506	$ 45,035,586	61,358,486	(4,303,161)	57,055,325
GENERAL REVENUES:							
Unrestricted investment earnings					280,139	3,135	283,274
Insurance recovery					-	444,300	444,300
CHANGE IN NET POSITION (DEFICIT)					61,638,625	(3,855,726)	57,782,899
NET POSITION (DEFICIT) - Beginning of year					(1,882,659,103)	(11,271,478)	(1,893,930,581)
NET POSITION (DEFICIT) - End of year					$ (1,821,020,478)	$ (15,127,204)	$ (1,836,147,682)

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Puerto Rico Infrastructure Financing Authority
(A Component Unit of the Commonwealth of Puerto Rico)
Balance Sheet-Governmental Funds
June 30, 2016

	General Fund		ARRA Fund		Capital Projects Fund		Debt Service Fund		Total Governmental Funds
ASSETS									
Cash in GDB	$	997,073	$	-	$	-	$	-	$	997,073
Cash and cash equivalents in other financial institutions		987,888		-		-		-		987,888
Due from other governmental entities		316,203		-		-		-		316,203
Due from other governmental funds		2,575,200		30		194,961		3,000		2,773,191
Due from other funds		172,657		-		1,300,069		-		1,472,726
Due from Commonwealth of Puerto Rico		126,794		236,022		-		-		362,816
Due from GDB		18,498		-		-		-		18,498
Other		-		23,481		-		-		23,481
Restricted assets:										
Cash in GDB		603,001		-		1,901,449		-		2,504,450
Cash and cash equivalents in other financial institutions		-		-		35,204,053		12,990,326		48,194,379
Accrued interest receivable		-		-		1,268		-		1,268
Investments and investment contracts		95,863,322		-		627,700		3,138,500		99,629,522
Due from other governmental entities		-		-		11,401,322		-		11,401,322
Due from Commonwealth of Puerto Rico		-		8,852,750		3,927,635		-		12,780,385
	$	101,660,636	$	9,112,283	$	54,558,457	$	16,131,826	$	181,463,202

Continues

The accompanying notes are an integral part of this basic financial statement.

RSM

Puerto Rico Infrastructure Financing Authority
(A Component Unit of the Commonwealth of Puerto Rico)
Balance Sheet-Governmental Funds
June 30, 2016

Continued

	General Fund	ARRA Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Accounts payable and accrued liabilities	$ 1,466,042	$ -	$ -	$ -	$ 1,466,042
Liabilities payable from restricted assets:					
Accounts payable and accrued liabilities	839,023	8,852,750	43,936,235	35,920,390	- 89,548,398
Due to Commonwealth	-	-	1,459,020	-	1,459,020
Due to other funds	6,860		9,956		16,816
Due to other governmental funds	77,329	229,443	2,466,419	-	2,773,191
Total liabilities	2,389,254	9,082,193	47,871,630	35,920,390	95,263,467
FUND BALANCES:					
Non-spendable	95,863,322	-	-	-	95,863,322
Restricted for:					
Capital Projects	-	-	6,686,827	-	6,686,827
Debt Service	-	-	-	(19,788,564)	(19,788,564)
Unassigned	3,408,060	30,090	-	-	3,438,150
Total fund balances	99,271,382	30,090	6,686,827	(19,788,564)	86,199,735
	$ 101,660,636	$ 9,112,283	$ 54,558,457	$ 16,131,826	$ 181,463,202

The accompanying notes are an integral part of this basic financial statement.

RSM

Puerto Rico Infrastructure Financing Authority
(A Component Unit of the Commonwealth of Puerto Rico)
Reconciliation of the Balance Sheet to the Statement of Net Position (Deficit)
For the Fiscal Year Ended June 30, 2016

FUND BALANCES - GOVERNMENTAL FUNDS		$	86,199,735
Amounts reported for governmental activities in the statement of net position/(deficit) are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. These amounts are:			
Non-depreciable capital assets	40,347,800		
Depreciable capital assets, net	39,128		40,386,928
Prepaid expenses are not available to pay current period expenditures and, therefore, are not deferred in the funds	21,627		21,627
Other non-current assets are not available to pay current period expenditures and, therefore, are not deferred in the funds:			
Net investment in direct financing lease	35,700,000		
Due from Commonwealth	854,244		36,554,244
Deferred outflow of resources are not available to pay current period expenditures and, therefore, are not deferred in the funds			
Deferred charges on debt refunding	43,605,266		43,605,266
Liabilities, including bonds payable, loans payable, accrued interest payable, and contingencies are not due and payable currently and, therefore, are not reported in the funds			
Bonds and loans payable	(1,987,575,078)		
Accrued interest payable	(39,757,597)		
Accounts payable and accrued expenses	(455,603)		(2,027,788,278)
DEFICIT OF GOVERNMENTAL ACTIVITIES		$	(1,821,020,478)

The accompanying notes are an integral part of this basic financial statement.

RSM

Puerto Rico Infrastructure Financing Authority
(A Component Unit of the Commonwealth of Puerto Rico)
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
For the Fiscal Year Ended June 30, 2016

	General Fund	ARRA Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
REVENUES:					
Intergovernmental revenues:					
Contributions from Commonwealth of Puerto Rico	$ 4,000,000	$ 8,852,750	$ 30,062,049	$ 142,550,710	$ 185,465,509
Interest and investment income (loss):					
Interest bearing demand deposits	3,943	2	120,219	155,975	280,139
Investments and investment contracts	45,035,586	-	-	-	45,035,586
Direct financing lease revenues	-	-	-	2,577,289	2,577,289
Charges for services	399,500	-	-	-	399,500
Other	266	-	338,134	-	338,400
Total revenues	49,439,295	8,852,752	30,520,402	145,283,974	234,096,423
EXPENDITURES:					
Current:					
General government	3,843,946	-	44	-	3,843,990
Education, aqueduct and sewers and transportation	-	-	690,749	-	690,749
Economic development program	-	-	2,935,821	-	2,935,821
Recreation and sports	-	-	755,058	-	755,058
Edifications	-	-	275,939	-	275,939
Arts and entertainment	-	-	45,514	-	45,514
Public safety	-	-	46,117	-	46,117
ARRA programs	-	8,822,647	(603)	-	8,822,044
Impairment loss on deposits held in GDB	2,281,222	15	27,767,653	-	30,048,890
Debt service:					
Payment of maturing bonds and loans	-	-	-	194,840,000	194,840,000
Interest	-	-	231,548	90,071,880	90,303,428
Capital outlays:				-	-
General government	8,479	-	-	-	8,479
Education, aqueduct and sewers, and transportation	-	-	12,115,719	-	12,115,719
Recreation and sports	15,618	-	9,234,444	-	9,250,062
Edifications	-	-	242,622	-	242,622
Total expenditures	6,149,265	8,822,662	54,340,625	284,911,880	354,224,432

Continues

RSM

Puerto Rico Infrastructure Financing Authority
(A Component Unit of the Commonwealth of Puerto Rico)
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
For the Fiscal Year Ended June 30, 2016

Continued	General Fund	ARRA Fund	Capital Projects Fund	Debt Service Fund	Governmental Funds
REVENUES OVER (UNDER) EXPENDITURES	$ 43,290,030	$ 30,090	$ (23,820,223)	$ (139,627,906)	$ (120,128,009)
OTHER FINANCING SOURCES:					
Net proceeds from loans payable to GDB	-	-	27,088	-	27,088
Total other financing sources	-	-	27,088	-	27,088
NET CHANGES IN FUND BALANCES	43,290,030	30,090	(23,793,135)	(139,627,906)	(120,100,921)
FUND BALANCES - beginning of year	55,981,352	-	30,479,962	119,839,342	206,300,656
FUND BALANCES - end of year	$ 99,271,382	$ 30,090	$ 6,686,827	$ (19,788,564)	$ 86,199,735

The accompanying notes are an integral part of this basic financial statement.

RSM

Puerto Rico Infrastructure Financing Authority
(A Component Unit of the Commonwealth of Puerto Rico)
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2016

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS		$ (120,100,921)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. For the year these amounts are:		
Capital outlays	21,616,882	
Depreciation expense	(21,722)	21,595,160
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long - term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. For the year, these amounts were:		
Principal payments	194,840,000	
Amortization of bonds premium and deferred charges on debt refunding, net	(25,162,822)	
Proceeds from long - term debt	(27,088)	169,650,090
Some revenues reported in governmental funds were previously recognized at the government -wide level.		(700,000)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		(8,805,704)
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES		$ 61,638,625

The accompanying notes are an integral part of this basic financial statement.

RSM

Puerto Rico Infrastructure Financing Authority
(A Component Unit of the Commonwealth of Puerto Rico)
Statement of Net Position (Deficit) – Proprietary Fund
June 30, 2016

	Business -Type Activities
ASSETS:	
Current assets:	
Cash in GDB	$ 549,643
Cash and cash equivalents in other financial institutions	620,772
Accounts receivable, net	1,462,455
Prepaid expenses	227,937
Due from other funds	16,816
Total current assets	2,877,623
Non current assets:	
Capital assets, net:	
Nondepreciable:	
Land	4,438,534
Depreciable, net	23,736,996
Total assets	31,053,153
LIABILITIES AND NET POSITION (DEFICIT):	
Current liabilities:	
Accounts payable and accrued expenses	1,686,562
Accrued interest payable	5,659,919
Line of credit	37,361,150
Due to other funds	1,472,726
Total current liabilities	46,180,357
NET POSITION (DEFICIT):	
Net investment in capital assets	(1,185,620)
Deficit	(13,941,584)
TOTAL NET DEFICIT	$ (15,127,204)

The accompanying notes are an integral part of this basic financial statement.

RSM

Puerto Rico Infrastructure Financing Authority
(A Component Unit of the Commonwealth of Puerto Rico)
Statement of Revenues, Expenses, and Changes in Fund Net Position (Deficit)
Proprietary Fund
For the Fiscal Year Ended June 30, 2016

Operating revenues:	
Rent income	$ 5,156,624
Other	459,693
Total operating revenue	5,616,317
Operating expenses:	
General, administrative, and other operating expenses	3,830,573
Depreciation expense	818,824
Total operating expenses	4,649,397
Operating income	966,920
Non-operating revenues (expenses):	
Interest and investment earnings	3,135
Insurance recovery	444,300
Impairment loss on deposits held in GDB	(2,991,050)
Interest expense	(2,279,031)
Total non-operating revenues (expenses)	(4,822,646)
Net change in net position (deficit)	(3,855,726)
Net position (deficit) - beginning of year	(11,271,478)
Net position (deficit) - end of year	$ (15,127,204)

The accompanying notes are an integral part of this basic financial statement.

RSM

Puerto Rico Infrastructure Financing Authority
(A Component Unit of the Commonwealth of Puerto Rico)
Statement of Cash Flows – Proprietary Fund
For the Fiscal Year Ended June 30, 2016

Cash flows from operating activities:	
Receipts from customers and users	$ 5,144,552
Payments to suppliers	(1,346,006)
Impairment loss on deposits held in GDB	(2,991,050)
Net cash provided by operating activities	807,496
Cash flows from non-capital and related financing activities:	
Advances from other funds	(9,956)
Net cash used in non-capital and related financing activities	(9,956)
Cash flows from capital and related financing activities:	
Capital expenditures	(2,456,868)
Net cash used in capital and related financing activities	(2,456,868)
Cash flows from investing activities:	
Insurance recovery	444,300
Interest collected on deposits, investments and loans	3,135
Net cash provided by investing activities	447,435
Net change in cash and cash equivalents	(1,211,893)
Cash and cash equivalents, at beginning of year	2,382,308
Cash and cash equivalents, at end of year	$ 1,170,415
Cash and cash equivalents include:	
Cash in GDB	$ 549,643
Cash and cash equivalents in other financial institutions	620,772
	$ 1,170,415
Reconciliation of operating income to net cash provided by operating activities	
Operating income	$ 966,920
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation expense	818,824
Impairment loss on deposits held in GDB	(2,991,050)
Changes in operating assets and liabilities:	
Increase in accounts and loans receivable	(471,765)
Decrease in prepaid expenses	16,673
Increase in accounts payable and accrued liabilities	2,467,894
	(159,424)
Net cash provided by operating activities	$ 807,496

The accompanying notes are an integral part of this basic financial statement.

1. REPORTING ENTITY

Puerto Rico Infrastructure Financing Authority (the Authority) is a Component Unit of the Commonwealth of Puerto Rico (the Commonwealth) created by Act No. 44 of June 21, 1988, as amended (the Act No. 44) and an affiliate of Government Development Bank for Puerto Rico (GDB), another Component Unit of the Commonwealth. The Authority was organized to provide financial, administrative, and other types of assistance to public corporations, municipalities, and other governmental instrumentalities or political subdivisions of the Commonwealth that develop and operate infrastructure facilities. The accompanying financial statements present the net position and results of operations of the entity as a whole and by major funds that are governed by the Authority.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Authority conform to accounting principles generally accepted in the United States of America (US GAAP) for governments as prescribed by the Governmental Accounting Standard Board (GASB).

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

Following is a description of the Authority's most significant accounting policies:

Government-Wide Financial Statements – The statement of net position and the statement of activities report information on all activities of the Authority. The effect of interfund balances has been removed from the government-wide statement of net position, except for the residual amounts due between governmental and business-type activities. Interfund charges for services among functions of the government-wide statement of activities have not been eliminated. The Authority's activities are distinguished between governmental and business-type activities. Governmental activities generally are financed through taxes and intergovernmental revenue. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services or interest earned on investment securities.

The statement of net position presents the Authority's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Net position is reported in three categories:

- *Net Investment in Capital Assets* – This component of net position consists of capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets, if any. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt are included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at year end, the portion of the debt or deferred inflows of resources attributable to the unspent amount is not included in the calculation of this component of net position. Rather, that portion of the debt or deferred inflows of resources is included in the same net position component (restricted or unrestricted) as the unspent amount.

- *Restricted* – This component of net position consists of restricted assets and deferred outflows of resources reduced by related liabilities and deferred inflows of resources. Generally, a liability relates to restricted assets if the assets results from a resource flow that also results in the recognition of a liability or if a liability will be liquidated with the restricted assets reported.
- *Unrestricted* – This component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position. When both restricted and unrestricted resources are available for use, it is the Company's policy to use restricted resources first and the unrestricted resources when they are needed.

Statement of activities demonstrates the degree to which the expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or program. Certain indirect costs have been allocated and are reported as direct program expenses of individual functions or programs. Program revenues include: (1) interest and investment income, including the changes in the fair value of investments; (2) grants and contributions that are restricted to meet the operational or capital requirements of a particular function and; (3) certain charges for services to customers that purchase, use or directly benefit from services given by a particular function. Other items not meeting the definition of program revenue are instead reported as general revenue.

Governmental Funds Financial Statements – Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All funds of the Authority are considered major funds.

Governmental Funds

Governmental funds focus on the sources and uses of funds and provide information on near-term inflows, outflows and balances of available resources. The Authority reports the following governmental funds:

- ***General Fund*** – The General Fund is the general operating fund of the Authority that is used to account for all financial resources, except those required to be accounted for in another fund.
- ***ARRA Fund*** – The ARRA fund accounts for resources used or contributed to meet the specific purposes established by this specific federal financial assistance program.
- ***Capital Projects Fund*** – The Capital Projects Fund accounts for resources used or contributed for the acquisition or construction of capital assets and capital improvements.
- ***Debt Service Fund*** – The Debt Service Fund accounts for the accumulation of resources for payment of interest and principal on long-term obligations.

Proprietary Funds

These funds account for those activities, which are financed and operated in a manner similar to private business enterprises. Management intends to recover, primarily through user charges, the cost of providing goods or services to the general public.

The only major proprietary fund is the World Plaza Building Fund, which is used to account for the activities related to the rental of office space and parking lots.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation:

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Funds Financial Statements – The governmental funds' financial statements are reported using the current financial resources measurement focus and the modified-accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues available if they are collected within 60 days after the end of the current fiscal year. Other revenues are considered measurable and available only when cash is received by the Authority. Expenditures generally are recorded when a liability is incurred. However, principal and interest on long term debt, loans and notes payable are recorded only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long term debt, notes and loans and acquisitions under capital leases are reported as other financing sources.

Proprietary Fund Financial Statements – The basic financial statements of the proprietary fund are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements. The proprietary fund account for those activities for which the intent of management is to recover, primarily through user charges, the cost of providing goods or services to the general public.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing the services that correspond to the proprietary fund's principal ongoing operations. Operating revenue is generated from rental, investing, and other related activities. Operating expenses include general and administrative expenses, among others. Revenues and expenses not meeting this definition are reported as non-operating revenue and expenses.

Cash Equivalents – Cash equivalents are defined as highly liquid investments with original maturities at the date of purchase of 90 days or less.

Investments and Investment Contracts – To the extent available, the Authority's investments and investment contracts, except for money market investments and nonparticipating investment contracts, which use a cost base measure, are recorded at fair value as of June 30, 2016. GASB Statement No. 72 - *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

Level 1 Investments whose values are based on quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.

Level 2 Investments with inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.

Level 3 Investments have unobservable inputs for an asset or liability and may require a degree of professional judgment.

Realized gains and losses from the sale of investments and unrealized changes in fair values are recorded as investment income.

Accounts Receivable – Accounts receivable are stated net of estimated allowances for uncollectible accounts. The allowance is based on the evaluation of the risk characteristics of the receivable, including past collection experience and current economic conditions. Charge-offs are recorded against the allowance when management believes that collectability is unlikely. Recoveries of amounts previously charged off are credited to the allowance. Because of uncertainties inherent in the estimation process, management's estimate may change in the future.

Prepaid Expenses – Certain payments to vendors represent costs applicable to future accounting periods and are recorded as prepaid items in the government-wide financial statements.

Restricted Assets – Certain resources are set aside for the repayment of bonds payable, construction of capital projects and other purposes, such as future contributions to the revolving loan funds. All of these assets are classified as restricted assets on the accompanying statement of net position/(deficit) and governmental funds balance sheet because these resources are limited for these purposes by applicable agreements.

Direct Financing Lease – Aggregate rental payment due over the term of the lease less unearned income are included in direct financing lease receivable. Unearned income is amortized to lease income using systematic and rational methods that approximate the interest method.

Capital Assets – Capital assets include land, construction in progress, buildings, furniture and equipment, vehicles, and buildings improvements. The threshold for capitalizing furniture and equipment, vehicles, and buildings improvements is $750. Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets are recorded at cost or estimated historical cost. Contributed assets are recorded at estimated fair value at the time received. Capital assets and related depreciation are recognized in the government-wide financial statements and proprietary funds financial statements. Depreciation is determined using the straight line method over the related asset's estimated useful lives. There is no depreciation recorded for land and construction in progress. In governmental funds financial statements, capital assets are recorded as expenditures, and no depreciation is recognized.

The ranges of the useful lives are as follows:

Description	Years
Building	40
Building improvements	15
Furniture and equipment	3–5
Vehicles	3–5

The costs of normal maintenance and repairs that do not add value to the asset or materially extend assets' lives are expensed.

Capital assets are evaluated for impairment, using the guidance provided by Governmental Accounting Standards Board (the GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. Under this statement, governments are required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of capital assets has occurred. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations, or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of capital assets, and construction stoppage, among others.

Deferred Outflow of Resources – The Authority presents as deferred outflow of resources losses resulting from current or advance refunding of debt that are deferred and amortized over the shorter of the life of the new debt and the remaining life of old debt. The amount amortized is reported as a component of interest expense.

Compensated Absences – Employees are granted 30 days of vacation and 18 days of sick leave annually. Vacations and sick leave may be accumulated up to a maximum of 60 and 90 days, respectively. In the event of an employee resignation, it is reimbursed for accumulated vacation days up to the maximum allowed.

Early Retirement – The Authority records in the government-wide financial statements an expense for termination benefits when an offer is accepted by the employee and the benefit amount is determined.

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Bond Premiums/Discounts – In the government-wide financial statements, premiums and discounts costs related to long-term debt are deferred and are amortized or accreted over the life of the related debt, using a systematic and rational methods that approximate the interest method. Loans payable, Special Tax Revenue Bonds, Special Obligation Bonds, Dedicated Tax Revenue Bonds Anticipation Notes, and Mental Health Infrastructure Revenue Bonds in the government-wide financial statements, are shown net of unamortized premium or discount.

Governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued, as well as any related premium is reported as other financing source while discounts on debt issuances are reported as other financing use. Issuance costs are recorded as expenditures when paid.

Interfund Transactions – The Authority has the following types of interfund transactions:

- **Loans** – Represent amounts provided with a requirement for repayment. Interfund loans are reported as interfund receivables (i.e. due from other funds) in lender fund and interfund payables (i.e. due to other funds) in borrower funds. Noncurrent portions of long-term interfund loan receivables are reported as advances and are offset equally by nonspendable fund balance which indicates that they do not constitute expendable available financial resources and therefore are not available for appropriation.
- **Reimbursements** – Represent repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements are reported as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.
- **Transfers** – Represent flow of assets (such as cash or goods) without equivalent flow of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the fund making transfers and as other financing sources in the funds receiving transfers. In proprietary funds, transfers are reported after nonoperating revenues and expenses.

Fund Balance – Fund balances for each governmental fund are displayed into the following classifications, when applicable, depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

- **Non-spendable** – Amounts that cannot be spent because they are legally or contractually required to be maintained intact.
- **Restricted** – Amounts that can be spent only for specific purposes because of constraints imposed by external providers (such as grantors, bondholders, and higher levels of government), or imposed by constitutional provisions or enabling legislation. Effectively, restrictions may be changed or lifted only with the consent of the resource providers.
- **Committed** – Amounts that can be spent only for specific purposes determined by a formal action of the government's highest level of decision-making authority.
- **Assigned** – Amounts the government intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed.

- **Unassigned** – Represent the residual classification for the general funds, and includes all spendable amounts not contained on the other classifications. In the other funds, the unassigned classification is only to report a deficit balance resulting from overspending for specific purposes for which the amounts have been restricted.

For classification of governmental fund balances, the Authority considers expenditures to be made from restricted resources first, then in the following order: committed, assigned, and unassigned resources.

The Authority has no committed or assigned fund balances.

Risk Management – The Authority is responsible for assuring that the Authority's property is properly insured. Annually, the Authority compiles the information of all property owned and its respective replacement value and purchases property and casualty insurance policies. Insurance coverage for fiscal year 2016 remained similar to those of prior years. For the last three years, insurance settlements have not exceeded the amount of coverage.

Termination Benefits – The Authority accounts for termination benefits by recognizing a liability and expense for voluntary termination benefits when the offer is accepted and the amount can be estimated. A liability and expense for involuntary termination benefits is recognized when a plan of termination has been approved by those with the authority to commit the government to the plan, the plan has been communicated to the employees, and the amount can be estimated.

Deferral of Accounting Pronouncement – The Authority is required to adopt the provision of GASB Statement No. 68 Accounting and Financial Reporting for Pensions ("GASB 68") - an amendment of GASB Statement No. 27, and Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68 ("GASB 71"). These statements were effective for fiscal years beginning after June 15, 2014. The primary objective of GASB 68, as amended by GASB 71, is to improve accounting and financial reporting by state and local government for pensions. It also improves information provided by state and local governmental employers for pensions about financial support for pensions that are provided by other entities. This Statement replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governments Employers, as well as the requirements of Statement No. 50, Pension Disclosures, as they relate to pensions that are provided through pension plans administered as trust or equivalent arrangements that meet certain criteria.

The adoption of GASB 68 and 71 requires the Authority to obtain from the Employees' Retirement System of the Commonwealth of Puerto Rico, technical information regarding actuarial valuations, discount rates, the Authority's proportionate share of the net pension liability and deferred outflows and inflows of resources, as these relates to pension costs. As of June 30, 2016, and in spite of several formal requests from the Authority's management the Employees' Retirement System of the Commonwealth of Puerto Rico did not provide the Authority with the required audited information. Therefore, the Authority was unable to adopt the dispositions of GASB 68 and 71.

Recognition of these amounts would increase liabilities, increase deferred outflows of resources, increase deferred inflows of resources, increase deficit, and change the pension expense.

Future accounting pronouncements – GASB has issued the following accounting pronouncements that have effective date after June 30, 2016:

- **GASB Statement No. 73**, *Accounting and Financial Reporting or Pension and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provision of GASB Statements No. 67 and No. 68.* The provisions of this statement are effective for fiscal years beginning after June 15, 2015 - except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of GASB Statement No. 68, which are effective for fiscal years beginning after June 15, 2016.

- **GASB Statement No. 74**, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which is effective for fiscal years beginning after June 15, 2016.

- **GASB Statement No. 75**, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension Plans*, which is effective for fiscal years beginning after June 15, 2017.

- **GASB Statement No. 77**, *Tax Abatement Disclosures*, which is effective for reporting periods beginning after December 15, 2015.

- **GASB Statement No. 78**, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which is effective for reporting periods beginning after December 15, 2015.

- **GASB Statement No. 79**, *Certain External Investment Pools and Pool Participants*, which was effective for periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk and shadow pricing that are effective for periods beginning after December 31, 2015.

- **GASB Statement No. 80**, *Blending Requirements for Certain Component Units — an amendment of GASB Statement No. 14*, which is effective for reporting periods beginning after June 15, 2016.

- **GASB Statement No. 81**, *Irrevocable Split-Interest Agreements*, which is effective for reporting periods beginning after December 15, 2016.

- **GASB Statement No. 82**, *Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73*, which is effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

- **GASB Statement No. 83**, *Certain Asset Retirement Obligations*, which is effective for reporting periods beginning after June 15, 2018.

- **GASB Statement No. 84**, *Fiduciary Activities*, which is effective for reporting periods beginning after December 15, 2018.

The impact of these statements on the Authority's basic financial statements has not yet been determined.

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Governmental Activities – The accompanying statement of net position presents an accumulated deficit of approximately $1.8 billion. This situation occurs because the Authority's normal operations is to acquire and/or construct capital assets that will be transferred to the Commonwealth's agencies or other component units. The acquisition is mainly conducted through the issuance of long term obligations that will be funded by the Commonwealth with future appropriations. Accordingly, the Authority is completely dependent from the Commonwealth to effectively reverse its deficit position. Current cash flows shortage and liquidity uncertainties affecting the Commonwealth, could have a significant impact in the Authority continuing operations and its ability to pay obligations as they become due (See notes 11, 12, 24 and 25 for further details).

Business-type Activities – The accompanying statement of net position presents an accumulated deficit of approximately $15.1 million. This situation occurs mainly due to the debt issued to acquire and refurbish the World Plaza building and other costs incurred in connection with the acquisition of the building, that by its nature were not considered capital assets, and the net effect of the depreciation of capital assets. Management expectations are that during 2017, and as a result of operating lease agreements signed with the Office of the Courts Administration, and the Circuit Court of Appeals of the Commonwealth on 2016, rent and related revenues will increase, and the deficit will begin to amortize.

4. CASH AND CASH EQUIVALENTS, AND INVESTMENTS AND INVESTMENT CONTRACTS

The Authority is authorized to deposits funds in GDB, and/or in the custody of financial institutions approved by the Commonwealth. Commonwealth's regulations required domestic commercial banks to maintain collateral securities pledged for the security of public deposits at an amount not less than 100% of the amounts in excess of federal insurance coverage. GDB is exempt from collateral requirements established by the Commonwealth.

In accordance with investment guidelines promulgated by GDB for agencies and public corporations of the Commonwealth under the provisions of Act No. 113 of August 3,1995, and Executive Order 1995-50A (the Investment Guidelines), the Authority is authorized to purchase or enter into the following investment instruments:

- U.S. Government and agencies obligations
- Certificates of deposit
- Bankers acceptances
- Commercial paper
- Participations in the Puerto Rico Government Investment Trust Fund
- Obligations of the Commonwealth of Puerto Rico, its agencies, municipalities, public corporations, and instrumentalities
- Obligations of state and local governments of the United States of America
- Mortgage and asset-backed securities
- Corporate debt, including investment contracts

The Investment Guidelines also establish limitations and other guidelines. Investments related to bond issuances are purchased in accordance with the related bond indenture.

As of June 30, 2016, the Authority held cash, cash equivalents, and investments and investment contracts as follows:

Description	Amount
Unrestricted assets:	
Cash in GDB	$ 1,546,716
Cash in other financial institutions	1,608,660
Total unrestricted cash	3,155,376
Restricted assets:	
Cash in GDB	2,504,450
Cash in other financial institutions	16,937,509
Total restricted cash	19,441,959
Cash equivalents and investments and investments contracts:	
Cash equivalents	31,256,870
Investments and investment contracts, temporarily restricted	3,766,200
Investments, permanently restricted	95,863,322
Total cash equivalents and investments and investment contracts	130,886,392
	$ 153,483,727

The investment in capital appreciation bonds of the Puerto Rico Sales Tax Financing Corporation (COFINA) represents a permanently restricted investment, whereby the Authority cannot dispose of the investment unless it is approved by the Legislature of Puerto Rico. In addition, the Authority is not allowed to use the interest earned to support its programs.

The following table summarizes the type and maturities of investments held by the Authority as of June 30, 2016:

Description	Due Within One Year	Due After Ten Years	Total
Time deposits:			
Banco Popular de Puerto Rico	$ 446,504	$ -	$ 446,504
Money market funds:			
U.S. Bank Trust National Association	-	-	-
Federated Prime Obligations	30,810,366	-	30,810,366
Nonparticipating investment contracts — Calyon	-	3,766,200	3,766,200
COFINA Revenue Bonds, Junior Subordinate, Series 2011A	-	95,863,322	95,863,322
	$ 31,256,870	$ 99,629,522	$ 130,886,392

Fair value of investments based on the hierarchy of inputs are determined as follows:

	Fair Value	Classification Level
Investments by Fair Value Level		
Debt Securities:		
Cofina Revenue Bonds, Junior Subordinate, Series 2011 A	$95,863,322	1

Debt securities classified in Level 1 are valued using prices quoted in active markets for those securities.

Based on concentrations of credit risk, investment by type in any one issuer representing 5% or more of total investments have been separately disclosed. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

The investment in Sales Tax Revenues Bonds Junior Subordinate, Series 2011A, issued by COFINA, are not subject to redemption prior to maturity, which range from August 1, 2046 to August 1, 2050. The Authority may not dispose of this investment or its earnings, unless approved by the Legislature of Puerto Rico.

The credit quality ratings for investments and investment contracts at June 30, 2016, are as follows:

	Credit Risk Rating	
Counterparty	Standard & Poor's	Moody's
U.S. Bank Trust National Association	AA-	A1
Government Development Bank for Puerto Rico	SD	Ca
Federated Prime Obligations	AAAm	Aaa-mf
Calyon	A	A1
Banco Popular de Puerto Rico	BB	Ba2
COFINA Revenue Bonds Junior/Sub. Series 2011 A	CC	Caa2

The credit quality rating for time deposits and nonparticipating investment contracts are based on the credit quality ratings of the counterparties with whom those contracts are entered into.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The service agreement with GDB provides that the GDB's Risk Management Committee (RMC) is responsible for implementing and monitoring the interest risk policies and strategies. The RMC meets on a monthly basis to coordinate and monitor the interest risk management of interest risk sensitive assets and interest sensitive liabilities, including matching of their anticipated level and maturities, consistent with the Authority's liquidity, capital adequacy risk and profitability goals sent by the Authority's board of directors.

Custodial credit risk is the risk that in the event of a bank failure, the bank's deposits may not be returned. The Commonwealth requires that public funds deposited in commercial banks in Puerto Rico must be fully collateralized. Deposits maintained in the GDB are exempt from collateral requirement established by the Commonwealth and thus, represents custodial credit risk because in the event of the GDB's failure, the Authority may not be able to recover the deposits. The Authority's policy is to deposit funds with either institution which provides insurance or securities as collateral. Such collateral is held by the Department of the Treasury of the Commonwealth.

The Commonwealth and its component units have not been able to repay their loans from GDB, which has significantly affected GDB's liquidity and ability to pay its obligations.

Impairment of deposits held in GDB

Due to the existing conditions, on October 18, 2016, the Puerto Rico Department of Treasury issued Circular Letter No.1300-08-17, whereby it is declaring that GDB's management understand that there is substantial doubt as to GDB's ability to continue as a going concern.

As a result, an impairment loss on deposits held in GDB amounting to $33.0 was recorded in the Authority's basic financial statements as of and for the year ended June 30, 2016, as follows:

	Deposits held with GDB as of June 30, 2016					
	Governmental Activities			Business-Type Activities		
Description	Deposit Balance	Impairment Loss	Book Balance	Deposit Balance	Impairment Loss	Book Balance
Unrestricted:						
Cash	$ 3,278,295	$ (2,281,222)	$ 997,073	$ 3,540,693	$ (2,991,050)	$ 549,643
Restricted:						
Cash and cash equivalents	30,272,118	(27,767,668)	2,504,450	-	-	-
	$ 33,550,413	$ (30,048,890)	$ 3,501,523	$ 3,540,693	$ (2,991,050)	$ 549,643

5. DUE FROM OTHER GOVERNMENTAL ENTITIES

Accounts receivable presented in Balance Sheet - Governmental Funds as of June 30, 2016, are as follows:

Description	General Fund	Capital Projects Fund	Total
Due from other governmental entities	$ 316,203	$ 11,019,366	$ 11,335,569
Due from Municipality of San Juan	-	381,956	381,956
	$ 316,203	$ 11,401,322	$ 11,717,525

The reconciliation to the government-wide statement of net position/(deficit) as of June 30, 2016, is as follows:

Unrestricted receivable	$ 316,203
Restricted receivable:	
Due from Municipality of San Juan	381,956
Due from other governmental entities	11,019,366
	$ 11,717,525

On December 2011, the Authority entered into an Agreement with the Municipality of San Juan (the Municipality) to sell a parcel of land owned by the Authority for $5 million. Pursuant to provisions set forth by this agreement, the Municipality committed to settle a legal claim against the Authority in the amount of approximately $3.7 million and to pay the remaining $1.3 million in three equal installments, which were due at the date of closing, in July 2012 and in July 2013. As of June 30, 2016, accounts receivable due from the Municipality related with this transaction amounted to $381,956. Receivables from other governmental entities are related to construction projects managed by the Authority.

6. ACCOUNTS RECEIVABLE-BUSINESS TYPE ACTIVITY

The Authority earns income from the leasing of office space in the World Plaza Building. The World Plaza Building is a commercial space building owns by the Authority and located in San Juan, Puerto Rico with approximately 368,585 square feet available for rent. The occupancy rate is 95%. Rental income is accounted as it is earned, and the related expenses as incurred.

Accounts receivable presented in the Statement of Net Position (Deficit) of Proprietary Funds – World Plaza Building as of June 30, 2016, aggregating is composed of rent and related receivables, net of allowance for doubtful accounts, of $1,462,455 .

The following is a schedule by years of minimum future rentals on noncancelable operating leases as of June 30, 2016:

Fiscal Year Ending June 30,	Amount
2017	$ 6,192,079
2018	6,132,026
2019	5,928,748
2020	5,276,932
2021	1,020,609
2022-2025	302,320
Total minimum future rentals	$ 24,852,714

7. DIRECT FINANCING LEASE

On April 6, 2006, the Authority entered into a direct financing lease transaction resulting from the acquisition of certain medical facilities. Concurrent with the transaction, the Authority assumed a loan payable to GDB for $34,225,725 and entered into a lease agreement with Mental Health and Anti-Addiction Services Administration (MHAASA).

In October 2007, the Authority issued the Mental Health Infrastructure Revenue Bonds, Series A and B, in the aggregate amount of $43,330,000 to pay in full the note hereunder, plus accrued interest of $3,305,780. The Authority entered into a trust agreement with Banco Popular de Puerto Rico (the "Trustee"), providing a lease agreement that was assigned to the Trustee requiring that payments by MHAASA under the lease be made directly to GDB to cover the principal and interest required on the bonds.

The lease terms stated that the payments will be for 30 years after the commencement of the bond's term and the lease amount will be equal to the annual principal and interest requirement of the bonds hereunder. MHAASA's annual budget appropriations from the Commonwealth of Puerto Rico and the payments by the sub lessors of MHAASA were assigned to the Trustee as security interest for the lease payments. MHAASA has the option to purchase the leased premises for $1 at the end of the lease term.

The total rentals receivable under the lease contract, net of unearned income, were recognized as net investment in direct financing lease and the unearned income on the lease is recognized monthly at a constant periodic rate of return on the unrecovered investment.

The composition of the net investment in direct financing lease at June 30, 2016, is as follows:

Description	Amount
Net minimum lease payments receivable	$ 66,804,375
Less unearned lease income	(31,104,375)
	$ 35,700,000

At June 30, 2016, the minimum future lease payments due under the direct financing lease are as follows:

Years Ending June 30	Principal	Interest	Total Amount
2017	$ 800,000	$ 2,272,750	$ 3,072,750
2018	800,000	2,222,750	3,022,750
2019	900,000	2,169,625	3,069,625
2020	900,000	2,113,375	3,013,375
2021	1,000,000	2,054,000	3,054,000
2022-2026	6,100,000	9,208,875	15,308,875
2027-2031	8,200,000	6,922,500	15,122,500
2031-2036	11,400,000	3,770,000	15,170,000
2037-2038	5,600,000	370,500	5,970,500
	$ 35,700,000	$ 31,104,375	$ 66,804,375

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8. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2016, were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets:				
Nondepreciable:				
Land	$ 6,868,328	$ -	$ -	$ 6,868,328
Construction in progress	27,286,847	21,608,403	(15,415,778)	33,479,472
Depreciable:				
Furniture and equipment	1,029,142	8,479	-	1,037,621
Vehicles	57,692	-	-	57,692
Total capital assets	35,242,009	21,616,882	(15,415,778)	41,443,113
Less: Accumulated depreciation				
Furniture and equipment	976,771	21,722	-	998,493
Vehicles	57,692	-	-	57,692
Total accumulated depreciation	1,034,463	21,722	-	1,056,185
Governmental activities capital assets, net	34,207,546	21,595,160	(15,415,778)	40,386,928
Business-type activities:				
Capital assets:				
Nondepreciable:				
Land	4,438,534	-	-	4,438,534
Construction in progress	1,184,355	2,232,211	(3,416,566)	-
Depreciable:				
Building	22,561,474	-	-	22,561,474
Building improvements	99,802	3,416,566	-	3,516,368
Furniture and equipment	235,594	224,658	-	460,252
Total capital assets	28,519,759	5,873,435	(3,416,566)	30,976,628
Less: Accumulated depreciation				
Building	1,868,275	565,582	-	2,433,857
Building improvements	551	206,883	-	207,434
Furniture and equipment	113,448	46,359	-	159,807
Total accumulated depreciation	1,982,274	818,824	-	2,801,098
Business-type activities capital assets, net	26,537,485	5,054,611	(3,416,566)	28,175,530
Total capital assets, net	$ 60,745,031	$ 26,649,771	$ (18,832,344)	$ 68,562,458

The Authority issued certain bonds and notes and received legislative appropriations to finance the construction of certain capital projects for the benefit of Puerto Rico Aqueduct and Sewer Authority (PRASA), various municipalities of Puerto Rico, and other agencies and instrumentalities of the Commonwealth. The capital projects include the construction of infrastructure and buildings to be used in the operations of, and managed by, PRASA, municipalities of Puerto Rico, and other agencies and instrumentalities of the Commonwealth in their respective operations. These capital projects, including land acquired, are included as part of the Authority's capital assets until construction is completed and the conditions for transfers to the ultimate beneficiaries are met, at which time they are recorded as an expense in the statement of activities.

During the year ended June 30, 2016, the Authority incurred construction costs for the benefit of other instrumentalities, which are presented as current expenditures in the accompanying statement of revenues, expenditures, and changes in fund balances — governmental funds as follows:

Function/Programs	Amount
Economic development program	$ 2,935,821
Education, aqueduct and sewers and transportation	690,749
Recreation and sports	755,058
Edifications	275,939
Arts and entertainment	45,514
Public safety	46,117
	$ 4,749,198

During the year ended June 30, 2016, depreciation expense of approximately $ 22 thousand and $819 thousand were charged to the general government function and Business-type activities, respectively, in the accompanying statement of activities.

9. INTERFUND BALANCES

The summary of the amounts due from/to other funds as of June 30, 2016, is as follows:

Receivable By	Payable By	Purpose	Amount
General Fund	Capital Projects Fund	Reimbursement of administrative costs	$ 2,463,389
ARRA Fund	Capital Projects Fund	To finance program expenditures	30
Capital Projects Fund	ARRA Fund	Reimbursement of administrative costs	117,632
General Fund	ARRA Fund	Reimbursement of administrative costs	111,811
Capital Projects Fund	General Fund	Reimbursement of administrative costs	77,329
Debt Service Fund	Capital Projects Fund	Reimbursement of administrative costs	3,000
			$ 2,773,191

10. RESTRICTED NET POSITION / FUND BALANCES

Restricted assets of the Authority included in the statement of net position / fund balances at June 30, 2016 consist of cash and cash equivalents, receivables, investments, and other assets, net of its related liabilities payable from those restricted assets, to be used for the following purposes:

Description		Amount
Restricted for investment in capital appreciation bonds of COFINA, whereby the Authority is not allowed to use the interest earned in this investment. In the governmental funds financial statements this amount is presented as non-spendable fund balance.	$	95,863,322
Restricted for debt service payments for the outstanding debt of capital projects		(25,809,355)
Restricted for debt payments of dedicated revenue tax bonds anticipation notes		12,707,618
	$	82,761,585

11. BONDS PAYABLE

Special Tax Revenue Bonds – On June 16, 2005, the Authority issued $309,102,577 Special Tax Revenue Bonds, Series 2005 A (the Series 2005 A Bonds), $324,625,000 Special Tax Revenue Bonds, Series 2005 B (the Series 2005 B Bonds), and $699,235,339 Special Tax Revenue Refunding Bonds, Series 2005 C (the Series 2005 C Bonds). The Series 2005 A Bonds mature at various dates from July 1, 2029 through 2045, inclusive, the Series 2005 B Bonds maturing on July 1, 2037 and 2041, and the Series 2005 C Bonds maturing on July 1, 2028. The Series 2005 B Bonds may be redeemed by the Authority prior to maturity upon not less than 30 days' prior notice, either in whole or in part, and if in part, as directed by the Authority. The Series 2005 A and C are not subject to redemption prior to maturity, were issued as Capital Appreciation Bonds.

The Series 2005 A, B, and C Bonds bear interest, payable semiannually on January 1 and July 1 at rates ranging from 4% to 5.5%. Accrued interest on the Capital Appreciation Bonds will be paid at maturity as part of the bonds accreted value.

The Series 2005 A and B Bonds were issued primarily for the purpose of providing approximately $292 million in financial assistance to PRASA and other Commonwealth instrumentalities and municipalities in connection with certain capital projects. This includes the repayment of approximately $26 million for certain advances made to the Authority by GDB for the purpose of providing funds to pay certain capital improvements of the Authority or other Commonwealth's instrumentalities. The Series 2005 A and B Bonds were also issued to provide approximately $317 million in working capital assistance to the Commonwealth and to cover interest and costs of issuance of the Series 2005 A and Series 2005 B Bonds. The bond proceeds earmarked for PRASA and non-PRASA projects were deposited in the Authority's Capital Projects Fund.

The Series 2005 C Bonds were issued for the purpose of refunding all of the Authority's Special Tax Revenue Bonds, Series 1997 A Bonds, including capitalized interest and to cover costs of issuance of the Series 2005 C Bonds. This refunding permitted the Authority to realize present value savings on its debt service requirements. Such transaction resulted in a deferred loss on refunding of $76,267,097.

The Authority deposited the net proceeds of the Series 2005 C Bonds, together with certain other available moneys, with the Trustee, as escrow agent, in a special redemption fund under the terms of an escrow deposit agreement. Such net proceeds, together with such other available moneys, were invested in government obligations, whose principal and interest when due, together with any moneys deposited with the Trustee remaining uninvested, will provide moneys sufficient to pay the principal redemption of premium and interest on the refunded bonds through the date of redemption.

On September 28, 2006, the Authority issued $469,770,000 Special Tax Revenue Bonds, Series 2006 (the Series 2006 Bonds), for the purpose of developing the infrastructure necessary for the XXI Central American and Caribbean Games (the Games). The proceeds of this issuance provided for: (1) the acquisition, improvements and construction of sports and other facilities necessary for the Games; (2) the construction of capital projects of certain Commonwealth's instrumentalities and municipalities; and (3) the payment of capitalized interest and cost of issuance of the Series 2006 Bonds. The proceeds of the Series 2006 Bonds were deposited into a Special Construction Fund administered by the Authority on behalf of the applicable benefited entities. The Series 2006 Bonds bear interest, payable on July 1 and January 1 of each year, at various rates ranging from 4.50% to 5.00%, and mature on various dates from July 1, 2010 to July 1, 2046.

The Special Tax Revenue Bonds are payable solely from and secured by a pledge of federal excise taxes and other moneys deposited to the credit of a sinking fund established pursuant to a trust agreement. Payment of principal and interest is insured by separate municipal bond insurance policies issued by an unrelated insurance company.

Act No. 44, as amended, requires that in each fiscal year through fiscal year 2057, the first $117 million of certain federal excise taxes received by the Commonwealth be transferred to the Authority. Such taxes consist of the federal excise taxes levied on rum and other articles produced in Puerto Rico and sold in the United States, which taxes are collected by the U.S. Treasury and returned to the Commonwealth.

Rum is the only article currently produced in Puerto Rico subject to federal excise taxes, the proceeds of which are required to be returned to the Commonwealth. The trust agreement requires the Authority to deposit in the sinking fund the federal excise taxes and other moneys deposited as are required to meet the debt service requirements with respect to the Bonds.

RSM

Puerto Rico Infrastructure Financing Authority
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The federal excise taxes securing the Bonds are subject to a number of factors, including the continued imposition and remittance of such taxes to the Commonwealth and conditions affecting the Puerto Rico rum industry. The level of federal excise taxes to be received by the Commonwealth is currently expected to fall, although the exact amount cannot be determined. If the federal excise taxes received by the Commonwealth in any fiscal year are insufficient, Act No. 44 requires that the Authority request and the Director of the Office of Management and Budget of the Commonwealth include in the budget of the Commonwealth for the corresponding fiscal year, an appropriation necessary to cover such deficiency. The Legislature of the Commonwealth, however, is not obligated to make the necessary appropriation to cover such deficiency.

The Authority was required under the trust agreement to establish a reserve account in the sinking fund to deposit and maintain therein an amount equal to the reserve requirements, as defined. Alternatively, the Authority may deposit to the credit of such reserve account an insurance policy or a letter of credit in lieu of any required deposit or in substitution of moneys on deposit in the reserve account.

Additional bonds, secured on parity with the Bonds, may be issued for any purpose authorized by Act No. 44, subject to compliance with certain financial tests in the trust agreement.

On March 16, 2015, the Authority issued the Dedicated Tax Fund Revenue Bond Anticipation Notes, Series 2015 under and pursuant to Act No. 1 of 2015, as amended by Act No. 2 of 2015 of the Legislature of Puerto Rico approved January 15, 2015, as amended, in the aggregate principal amount of $245,955,000 with a maturity date of May 1, 2017, with an interest rate of 8.25% payable monthly on the first business day of each month, commencing on April 1, 2015.

The Series 2015A Notes are subject to redemption in whole or in part in Authorized Denominations at any time, at the option of the Authority upon not less than 20 days' prior written notice.

The Series 2015A Notes are subject to mandatory sinking fund redemption prior to maturity, and to redemption from funds in the redemption fund.

Proceeds of the Series 2015A Notes, together with funds contributed by the Puerto Rico Highways and Transportation Authority (PRHTA), were used to (i) redeem the PRHTA Special Revenue Bonds 2013A Bond Anticipation Notes (the PRHTA Notes), make a deposit to the Note Account established under the Trust Agreement to pay debt service on the Series 2015A Notes, and (iii) pay certain costs of issuance of the Series 2015A Notes.

The Series 2015A Notes are payable from, and are secured by the pledge of a Trust Estate comprising certain assets and revenues of the Authority, which include (i) a $6.25/barrel Petroleum Products Tax on Non Diesel products, (ii) any funds received by the Authority pursuant to the terms of a Financial Assistance Agreement between the Authority and PRHTA and (iii) any additional revenues pledged to the Authority in accordance with the Trust Agreement. The revenues pledged to the payment of the Series 2015A Notes could be applied to pay general obligation debt of the Commonwealth if its available resources are insufficient to cover all approved appropriations.

The Series 2015A Notes are guaranteed by the Commonwealth. The good faith, credit and taxing power of the Commonwealth are pledged to the payment of principal of and interest on the Series 2015A Notes. The Commonwealth does not guarantee any payments in excess of scheduled principal of and interest on the Series 2015A Notes. For the year ended June 30, 2016, principal and interest paid on Dedicated Tax Fund Revenue Bonds Anticipation Notes amounted to approximately $ 169 million.

As of June 30, 2016, debt service requirements for special tax revenue bonds were as follows:

Years Ending June 30	Principal	Interest	Total
2017	$ 158,010,000	$ 98,144,852	$ 256,154,852
2018	43,290,000	68,563,363	111,853,363
2019	45,580,000	66,212,800	111,792,800
2020	47,990,000	63,739,281	111,729,281
2021	50,525,000	61,096,613	111,621,613
2022-2026	296,995,000	259,906,075	556,901,075
2027-2031	378,965,000	180,617,525	559,582,525
2032-2036	406,460,000	157,156,125	563,616,125
2037-2041	435,515,000	121,604,375	557,119,375
2042-2046	518,920,000	41,626,375	560,546,375
2047	107,615,000	2,690,375	110,305,375
	2,489,865,000	$ 1,121,357,759	$ 3,611,222,759
Add — Net Premium/(Discount)	70,982,182		
Less:			
Unaccreted discount on capital appreciation bonds	(591,789,897)		
	$ 1,969,057,285		

Mental Health Infrastructure Revenue Bonds – On October 24, 2007, the Authority issued $39,800,000 Revenue Bonds, Series 2007 A, and $3,530,000 Series 2007 B (collectively, the Series 2007 Bonds). The Series 2007 A Bonds were issued for the purpose of providing funds, together with other available funds, to repay in full the loan due to the GDB amounting to $34,225,725 related to the acquisition of certain mental health facilities known as MEPSI Center located in the Municipality of Bayamón. The Series 2007 B Bonds were issued for the purpose of providing funds to pay interest accrued on a loan due to the GDB amounting to $3,305,780.

The Series 2007 A Bonds were issued under a trust indenture dated October 1, 2007, between the Authority and the GDB, which provides for the assignment of a lease with an option to purchase, dated October 24, 2007, as disclosed in Note 7. The Series 2007 A Bonds are payable semiannually on April 1 and October 1, and bear interest at fixed rates of 5.6% through 2014, 6.25% through 2024, and 6.5% through 2037. The Series 2007 Bonds are subject to redemption rights at 100% of the principal, plus accrued interest.

As of June 30, 2016, debt service requirements for Mental Health Infrastructure Revenue Bonds were as follows:

Years Ending June 30	Principal	Interest	Total
2017	$ 800,000	$ 2,272,750	$ 3,072,750
2018	800,000	2,222,750	3,022,750
2019	900,000	2,169,625	3,069,625
2020	900,000	2,113,375	3,013,375
2021	1,000,000	2,054,000	3,054,000
2022-2026	6,100,000	9,208,875	15,308,875
2027-2031	8,200,000	6,922,500	15,122,500
2032-2036	11,400,000	3,770,000	15,170,000
2037-2038	5,600,000	370,500	5,970,500
	35,700,000	$ 31,104,375	$ 66,804,375
Add — Premium	425,475		
	$ 36,125,475		

Executive Order

On December 1, 2015, the Governor signed Executive Order No. OE-2015-46 (the "Executive Order"), which provides that the Commonwealth will begin to redirect certain revenues in light of recently revised revenues estimates and its deteriorating liquidity situation. Pursuant to the Executive Order, certain available revenue that have been budgeted to pay debt service on the debt of the Authority were redirected, pursuant to the constitutional requirements (the clawback provision), to pay debt issues or guaranteed by the Commonwealth. Since that date, the Secretary of the Treasury has retained, for the application to payments due on the Commonwealth's public debt, approximately $113 million assigned to pay debt of the Authority which by law, constitute "available resources" subject to the Commonwealth's priority provision set forth in the Constitution.

Default

Due to the implementation of the Executive Order No. OE-2015-46 described above, the Authority did not transfer sufficient funds to the Trustee to make the $35.9 million in interest payment in full in respect of the January 1, 2016 payment date for its outstanding Series 2005A-C and Series 2006 Special Tax Revenue Bonds, issued pursuant to the Trust Agreement, between the Authority and U.S. Bank Trust National Association, as successor trustee (the "Trustee"), dated as of October 1, 1998, as amended.

Emergency Moratorium and Financial Rehabilitation Act

On April 6, 2016, the Legislature enacted the Act No. 21 "Emergency Moratorium and Financial Rehabilitation Act". The Act provides for the following: (a) authorizes the Governor to declare a moratorium on debt service payments for a temporary period for the Commonwealth, GDB, the Economic Development Bank for Puerto Rico (EDB) or any of the remaining government instrumentalities of Puerto Rico and, stay creditor remedies that may result from the moratorium; (b) amend GDB's Enabling Act to give GDB options and tools that it may need to address its own resolution (these amendments (a) modernize GDB's Organic Act related to a receivership for GDB, and authorize the creation of a temporary "bridge" bank to carry on certain of GDB's functions and honor deposits; (c) amends the Enabling Act of the EDB to modernize its receivership provisions and; (d) create a new fiscal agency and financial authority. As a result, the following obligations were not paid as contracted:

	Unpaid Obligations		
Description	Principal	Interest	Total
Series 2005 Bonds	$ 4,245,000	$ 42,637,304	$ 46,882,304
Series 2006 Bonds	4,785,000	33,195,342	37,980,342
BANs 2015A	73,099,007	2,822,988	75,921,995
	$ 82,129,007	$ 78,655,634	$ 160,784,641

12. LOANS PAYABLE

PFC Loan

On January 16, 2002, the Authority entered into a loan agreement (the Note) with Puerto Rico Public Finance Corporation (PFC), a Component Unit of the GDB. The Note was originally a loan granted by the GDB (the Old Note), but which, pursuant to Act No. 164 of December 17, 2001, PFC acquired and restructured through the issuance of PFC Commonwealth Appropriation Bonds (the PFC Bonds). The PFC Bonds were issued under trust indenture agreements whereby PFC pledged the Old Note, along with other notes under the Act No. 164, to certain trustees and created a first lien on the pledged revenue (consisting of annual Commonwealth appropriations earmarked to repay the Note).

During the fiscal year 2014, PFC refunded the PFC Bonds that were related to the Note, and therefore, the repayment terms were also modified by PFC for the proportionate portion attributable to the Authority The note matures in June 2031. Interest only is payable through June 30, 2015. Afterwards, principal and interest installments are payable annually. Interest on the unpaid principal amount of the Note is equal to the applicable percentage of the aggregate interest payable on PFC Bonds. Applicable percentage is the percentage representing the proportion of the amount paid by PFC on the Note to the aggregate amount paid by PFC on all the notes acquired by PFC under Act No. 164. The balance outstanding at June 30, 2016 was $3,606,473. During the year, the Authority did not receive Commonwealth appropriations to pay the principal and interest due on the Note.

Centro de Bellas Artes Luis A. Ferre's Auditorium Loan

On February 18, 2005, the Authority entered into a loan agreement with the GDB related to a nonrevolving line of credit in an amount not to exceed $40 million for the construction of an auditorium for Centro de Bellas Artes Luis A. Ferré. Principal amount of the loan is due and payable on June 30, 2040. The loan bears interest at 7% as of June 30, 2016 and interest installments are due annually. As of June 30, 2016, the principal balance outstanding under this loan agreement amounted to $4,779,941. During the year ended June 30, 2016, the Authority did not receive contributions from the Commonwealth of Puerto Rico.

ARRA Loan

On June 1, 2009, the Authority entered into a revolving line of credit facility (the Line of Credit) with the GDB to provide interim financing for costs incurred by the Authority under certain American Recovery and Reinvestment Act Programs (the ARRA Programs). The Line of Credit would be repaid from the cost reimbursements received from the federal government under the ARRA Programs and contributions from the Commonwealth of Puerto Rico. The line of credit matured on June 30, 2011, and subsequently was extended until January 31, 2016 and bears interest at 150 basis points over the prime rate, with a minimum interest rate of 6%. As of June 30, 2016, the principal balance and the related accrued interest amounted to $7,196,685 and $1,656,065, respectively.

During the year ended June 30, 2016, the Authority did not receive contributions from the Commonwealth of Puerto Rico nor cost reimbursements from the federal government under the ARRA programs were received to repay the loan.

World Plaza Building Loan

On March 8, 2012, the Authority entered into a $35 million line of credit with GDB for the acquisition, refurbishment and maintenance of certain real estate property that will be subsequently leased to the Puerto Rico Department of Justice. The credit facility is secured by a mortgage lien on the property, and is payable from future appropriations of the Commonwealth. The line of credit matures on June 30, 2017 and bears interest at 150 basis points over the prime rate, with a minimum interest rate of 6%. As of June 30, 2016, the principal balance outstanding under the line of credit amounted to $37,361,150, which includes $2,361,150 of capitalized interest on July 1, 2015. During the year ended June 30, 2016, the Authority did not make payments of principal or interest on this line of credit.

As of June 30, 2016, debt service requirements for loan agreements are as follows:

Years Ending June 30	Principal	Interes	Total
2017	$ 44,750,132	$ 7,511,743	$ 52,261,875
2018	89,097	192,481	281,578
2019	92,432	188,843	281,275
2020	96,134	184,902	281,036
2021	100,113	180,608	280,721
2022-2026	515,847	835,671	1,351,518
2027-2031	2,520,553	369,508	2,890,061
2032-2036	-	-	-
2037-2040	4,779,941	762,807	5,542,748
	52,944,249	$ 10,226,563	$ 63,170,812
Add: Net premium	55,905		
	$ 53,000,154		

13. CHANGES IN LONG-TERM AND OTHER LIABILITIES

Long-term liability activity in the governmental activities for the year ended June 30, 2016, was as follows:

Description	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Governmental Activities:					
Special Tax Revenue Bonds:					
Series 2005 A, B and C Bonds	$ 1,963,069,999	$ -	$ (34,475,000)	$ 1,928,594,999	$ 36,330,000
Series 2006 Bonds	448,930,000	-	(4,555,000)	444,375,000	4,785,000
Mental Health Infrastructure Revenue Bonds —					
Series 2007 A and B Bonds	36,400,000	-	(700,000)	35,700,000	800,000
Dedicated Tax Revenue Bonds Anticipation Notes:					
Series 2015 A Bonds	245,955,000	-	(155,110,000)	90,845,000	90,845,000
Subtotal	2,694,354,999	-	(194,840,000)	2,499,514,999	132,760,000
Net premium/(discount)	67,895,803	-	3,511,855	71,407,658	-
Unaccreted discount on capital appreciation bonds	(609,811,197)	-	18,021,300	(591,789,897)	-
Total bonds payable	2,152,439,605	-	(173,306,845)	1,979,132,760	132,760,000
Loans payable:					
Principal	15,457,410	125,688	-	15,583,098	7,386,982
Net premiums	60,540	-	(4,635)	55,905	-
Other Liabilities:					
Liability for legal matters	7,550,000	-	(7,550,000)	-	-
Accounts payables	111,993	-	(68,000)	43,993	43,993
Compensated absences	231,197	247,262	(199,782)	278,677	278,677
Termination benefits	215,147	-	(41,107)	174,040	-
Total governmental activities	2,176,085,892	372,950	(181,170,369)	1,995,269,473	140,471,652
Business-type activities					
Loans payable:					
Principal	37,361,150	-	-	37,361,150	37,361,150
Total	$ 2,213,427,042	$ 372,950	$ (181,170,369)	$ 2,032,629,623	$ 177,832,802

Long-term liabilities are presented in the government-wide statement of net position/deficit as of June 30, 2016, as follows:

Description	Amount
Bonds and notes payable - due in more than one year	$ 1,854,622,781
Bonds and notes payable - due in one year	177,510,132
Accounts payable and accrued liabilities - due in more than one year	174,040
Accounts payable and accrued liabilities - due in one year	322,670
	$ 2,032,629,623

On June 17, 2014, the Commonwealth signed into law Act No. 66 (also known as Fiscal Operation and Sustainability Act), which declared a state of fiscal emergency in order to adopt a plan to manage the economic consequences of the Commonwealth credit rating downgrade, and to establish expenditures reduction measures and a structured management in order to satisfy the commitments of the Commonwealth. This Act provides, among other, cost reduction measures including that the public corporations cannot provide salary increases or increase benefits to the employees; the establishment of a maximum amount of $600 for Christmas bonus and $200 for summer bonus; and the elimination of payment of balances in excess over a maximum days of sick and vacation accruals.

Compensated absences, including vacations and sick leave, are available to be liquidated by the employees during the year.

14. ARBITRAGE

The interest paid by the Authority in the Special Tax Revenue Bonds 2005 Series A and B, Special Tax Revenue Refunding Bonds 2005 Series C and Special Tax Revenue Bond Series 2006 are exempt from federal income tax. As a result, the Authority is subject to Federal Arbitrage Regulations (FAR). FAR requires that arbitrage be calculated and rebated to the federal government at the end of each five-year period that tax exempt debt is outstanding (90 percent of the amount due) and at maturity. Arbitrage calculation for the Special Tax Revenue Bonds 2005 Series A and B, Special Tax Revenue Refunding Bonds 2005 Series C was made on June 2015 with no arbitrage exposure reflected. The next arbitrage calculation will be on June 2020. Arbitrage calculation for the Special Tax Revenue Bonds 2006 Series is schedule to be performed on September 2016.

As of June 30, 2016, there is no arbitrage exposure.

15. TERMINATION BENEFITS

On October 13, 2010, the Authority announced to its employees a voluntary termination plan (the Plan) based on Act No. 70 enacted on July 2, 2010. Act No. 70 provides that eligible employees may retire from employment with the Commonwealth in exchange for an early pension, an economic incentive and other benefits. The Plan only applied to employees who were ten years or less from retirement in accordance with their applicable retirement plans as of December 31, 2010.

The Plan approved by the Authority's board of directors provides the following:

- The employee will receive an annuity of fifty percent of salary in effect at September 30, 2010. The Authority is responsible for the payment of the annuity in addition to the related employee and employer contributions to the Employees' Retirement System of the Commonwealth of Puerto Rico (the "Retirement System") for a maximum period of ten years.
- The employee will receive an economic incentive of six month's salary. This incentive is exempt from income taxes as established by Act No. 70.
- The employee will receive the benefits of health and dental insurance for a period of one year.

Only one employee was voluntarily separated from employment under the Plan. Total cost related to this termination benefits was $424 thousand. Employee and employer contributions to the Retirement System and the employee annuity for the applicable period were discounted based on the average interest rate of unpledged investments. As of June 30, 2016, the total liability related to this Plan was approximately $174 thousand.

16. REVOLVING LOAN FUNDS

Act No. 44 provided for the establishment of the Puerto Rico Water Pollution Control Revolving Fund (the Revolving Fund), a proprietary fund of the Commonwealth, which is administered by the Puerto Rico Environment Quality Board (EQB) and by the Authority in accordance with Title VI of the Water Pollution Control Act (the Clean Water Act) of 1972. The EQB, as the designated instrumentality of the Commonwealth, is empowered to enter into capitalization grant agreements with the U.S. Environmental Protection Agency (EPA), to accept capitalization grant awards made under Title VI of the Clean Water Act and, in conjunction with the Authority, to manage the Revolving Fund in accordance with the requirements of the Clean Water Act, Act No. 44, and the Memorandum of Understanding entered into by and among EQB, PRASA, GDB, and the Authority.

On July 7, 1997, the Legislature of the Commonwealth enacted legislation, which, among other things, established the Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund (the Drinking Water Fund) with the purpose of receiving financial assistance under the Clean Water Act and provides for the participation of the Authority in the administration of said fund.

The net position, revenues, and expenses of these loan funds are not included in the accompanying basic financial statements since the Authority acts only as administrator of the Revolving Fund and the Drinking Water Fund. As of June 30, 2016, the Authority holds cash in a custodian capacity for approximately $603 thousand which is presented as part of restricted cash and cash equivalents with a corresponding liability for the same amount, which is included as part of liabilities payable from restricted assets - accounts payable and accrued expenses in the accompanying statement of net position (deficit).

17. CONDUIT DEBT OBLIGATION

In December 2011, the Authority issued $669,215,000 Special Revenue Bonds, pursuant to a Loan and a Trust Agreement dated December 1, 2011, between the Authority and the Puerto Rico Ports Authority (PRPA), another component unit of the Commonwealth. The proceeds from the bonds were lent to PRPA to refinance certain obligations, acquire real estate for airport and seaport facilities, provide working capital, finance certain operating and capital costs, and finance the cost of issuing the bonds. These bonds are limited obligations of the Authority and are payable solely from and secured by the revenues to be received under the Loan and Trust Agreement. The PRPA shall make loan payments sufficient to cover the payment of principal and interest due on the Bonds. The bonds are also secured by two irrevocable, transferable direct pay letters of credit issued by GDB. Upon repayment of the bonds, ownership of the acquired facilities is retained by the PRPA. The Authority is not obligated in any manner for the repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the basic financial statements of the issuing entity. As of June 30, 2016, the remaining outstanding balance amounts to $190.6 million.

18. RELATED-PARTY TRANSACTIONS AND OTHER INTERGOVERNMENTAL TRANSACTIONS

During the year ended June 30, 2016, the Authority entered into the following related party transactions:

- Legislative appropriations from the Commonwealth of $4 million were used for operating expenses.
- Interest income on interest-bearing demand and time deposits with GDB amounted to approximately $31 thousand.
- GDB provided payroll services to the Authority at fixed amount of $50 thousand.

19. COMMITMENTS — OPERATING LEASES

The Authority leases equipment under noncancelable operating leases. At June 30, 2016, the minimum annual future rentals under noncancelable leases are as follows:

June 30	Amount
2017	$ 18,349

Rent expense for the year ended June 30, 2016, amounted to approximately $362 thousand.

20. COMMITMENTS — CONSTRUCTION

The Authority has active construction projects as of June 30, 2016, under various bond issuances. At June 30, 2016, the Authority's commitments with contractors are as follows:

Description	Commitment	Spent-to-Date	Remaining Commitment
Special Tax Revenue Bonds, Series 2005	$ 114,267,276	$ 97,454,642	$ 16,812,634
Special Tax Revenue Bonds, Series 2006	240,117,179	224,735,913	15,381,266
	$ 354,384,455	$ 322,190,555	$ 32,193,900

21. CONTINGENCIES

At June 30, 2016, the Authority is a defendant in various legal proceedings arising from its normal operations. Management, based on the advice of its legal counsel, is of the opinion that the ultimate liability, if any, resulting from these pending proceedings and legal actions in the aggregate will not have a material effect on the Authority's financial statements.

22. ARRA FUND

The Authority was a sub-grantee of the Office of the Governor of the Commonwealth of Puerto Rico (the Governor's Office) under the State Fiscal Stabilization Fund Program, which was authorized under Title XIV of Division A of the American Recovery and Reinvestment Act of 2009 (the ARRA Act). Among others, the Authority was awarded a $20 million grant for the ARRA Act implementation costs.

Under these ARRA Programs, the Authority is responsible to oversee the administration of all resources awarded to the Commonwealth under the ARRA Act. The Authority will also act as coordinator of efforts and tasks to ascertain ARRA Act funds are properly managed.

23. RETIREMENT SYSTEM

Substantially all full-time employees of the Authority participate in the Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities (ERS). The Employees Retirement System is a statutory trust created by Act No. 447 of May 15, 1951, as amended ("Act 447") and a component unit of the Commonwealth of Puerto Rico. The Employees Retirement System covers substantially all employees of the Commonwealth, its component units and the municipalities of Puerto Rico.

On April 4, 2013, the Governor of Puerto Rico, signed into law Act No. 3 of 2013, which represents a comprehensive reform of the Employees' Retirement System. Act No. 3 became effective on July 1, 2013 and amended the provisions of the different benefit structures under the Employees Retirement System as further discussed below.

Members who had entered the Employees Retirement System before January 1, 2000 participated in a defined benefit program. Members who began to participate prior to April 1, 1990 ("Act 447 Participants") were entitled to the highest benefits structure, while those who began to participate on or after April 1, 1990 ("Act 1 Participants") were subject to a longer vesting period and a reduced level of benefits, as provided by Act No. 1 of February 16, 1990 ("Act 1 of 1990").

In 1999, Act No. 447 was amended to close the defined benefit program for new participants and, prospectively, establish a new benefit structure similar to a cash balance plan (this new benefit structure is referred to as "System 2000"). Members who entered the Employees Retirement System on or after January 1, 2000 ("System 2000 Participants") participate solely in System 2000. Prior to the amendment made by Act 3-2013, under the System 2000 benefit structure, a participant was entitled to receive a lump-sum payment, which could be received in full or used to purchase an annuity from a third party, based solely on the amounts contributed in cash by such participant and credited earnings on such cash.

Act 3-2013 amended the law to eliminate the lump sum distribution and substitute it for a life annuity payable to the System 2000 Participants. System 2000 Participants do not benefit from any employer contributions. Instead, employer contributions made on account of System 2000 Participants are used to reduce the accumulated unfunded pension benefit obligation of the Employees Retirement System. System 2000 is not a separate plan as there are no separate accounts for System 2000 Participants. Contributions received from System 2000 Participants are pooled and invested by the Employees Retirement System together with the assets corresponding to the defined benefit structure. Thus, future benefit payments under the defined benefit structure of Act 447 and Act 1 of 1990 and the defined contribution structure of System 2000, as amended by Act No. 3 of 2013, will be paid from the same pool of assets of the Employees Retirement System.

Retirement and related benefits provided by the Employees Retirement System, and required contributions to the Employees Retirement System by employers and employees, are determined by law rather than by actuarial requirements. As of July 1, 2011, after the adoption of Act 116 of July 6, 2011 ("Act 116"), the statutory employer contribution for the Employees Retirement System increased from a minimum of 9.275% to a minimum of 10.275% of covered payroll, and will continue to increase annually until fiscal year 2021 The employer contribution rate for fiscal year 2016 was 14.275%.

Required employee contributions for the Employees Retirement System vary according to how the individual employee's retirement benefits are coordinated with social security benefits. Act 3-2013 increased the employee contribution from 8.275% to 10% of covered payroll.

The Employees Retirement System provides basic benefits under the defined benefit program principally consisting of a retirement annuity and death and disability benefits (collectively referred to herein as "Basic System Pension Benefits"). The Employee Retirement System also administers benefits granted under various special laws that have provided additional benefits for the retirees and beneficiaries (collectively referred to herein as "System Administered Pension Benefits"). The System Administered Pension Benefits include, among others, additional minimum pension, death and disability benefits, ad-hoc cost-of-living adjustments and summer and Christmas bonuses. Act 3-2013 and Act 160-2013 amended the various laws providing some of these System Administered Pension Benefits to reduce some of the amounts payable to existing retirees while eliminating the benefits for all future retirees (those retiring after June 30, 2013 and July 31, 2014).

The System Administered Pension Benefits are funded on a pay-as-you-go basis by the participating employers, including the Authority. The System Administered Pension Benefits corresponding to former employees of the Authority are obligations of the Authority. Most of the funds used to cover the System Administered Pension Benefits for other covered employees are required to be paid by the Commonwealth.

The June 30, 2013 actuarial valuations for the Employees Retirement System calculated accounting results for pension benefits under Governmental Accounting Standards Board No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans" ("GASB 25"). The Employees Retirement System's actuarial valuation as of June 30, 2014 differs from the actuarial valuation as of June 30, 2013, due to the adoption of GASB Statement No. 67, "*Financial Reporting for Pension Plans*" ("GASB 67"), which replaced GASB 25. GASB 67 specifies certain significant changes for financial reporting purposes, including but not limited to (a) calculation of plan liabilities based on the "entry age normal" method (compared to the "projected unit credit" method used in the prior valuation), (b) calculation of a "depletion date" based on a projection as to the length of time assets will cover projected benefit payments under certain assumptions, and (c) for purposes of valuing the plan's liabilities after the depletion date, use of a discount rate tied to a municipal bond index.

GASB 67 also introduces certain new terminology, including: (i) Total Pension Liability, which is the actuarial accrued liability calculated in accordance with the new GASB 67 requirements, (ii) Fiduciary Net Position, which is the market value of plan assets, net of liabilities (in the case of the Employees Retirement System, Fiduciary Net Position is also equivalent to the previously reported actuarial value of assets), and (iii) Net Pension Liability, which is calculated as Total Pension Liability less Fiduciary Net Position, and is equivalent to the unfunded actuarial accrued liability.

To calculate the net pension liability of the Employees Retirement System, the actuarial valuation uses several actuarial assumptions. Some examples of these assumptions include an expected rate of return of assets, age of retirement of active members, future pay increases for current employees, assumed rates of disability and post-employment life expectancies of retirees and beneficiaries. If the experience of the Employees Retirement System is different from these assumptions, the net pension liability of the Employees Retirement System may increase or decrease to the extent of any variances.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* ("GASB 68") became effective for the year ended June 30, 2015. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria as is the case of the Employees Retirement System. GASB 68 will bring the effect of GASB 67 summarized above, into the accounting records of the individual agencies, component units and municipalities, whose employees participate in the Employees Retirement System. The Commonwealth, as well as its component units and the municipalities, are considered "cost-sharing" employers of the Employees Retirement System; therefore, they must report their allocated share of the Commonwealth's resulting net pension liability from GASB 67. The Commonwealth and the Employees Retirement System are still in the process of evaluating the impact of GASB 68 and have not provided the Authority with the necessary information as of June 30, 2016 to adopt GASB 68 including its allocated share of the net pension liability mentioned above. Accordingly, these financial statements do not contain any adjustments, disclosures or required supplementary information required by GASB 68.

The pension costs recognized in the accompanying financial statements are equal to the statutorily required contributions, with a liability recorded for any unpaid required contributions.

Total employee contributions for the defined contribution plan during the year ended June 30, 2016, amounted to approximately $106,773. The Authority's contributions for the years ended June 30, 2016, 2015, and 2014, amounted to approximately $251,734, $131,223 and $130,900, respectively. These amounts represented 100% of the required contribution for the corresponding year.

Voluntary Pre-Retirement Program Act

On December 2015, the Legislature enacted the "Voluntary Pre-Retirement Program Act," (Act 211-2015) to establish a program whereby eligible employees of the Government of the Commonwealth of Puerto Rico may voluntarily separate from service by receiving incentives until they meet the requirements for retirement.

Every agency or municipality had to conduct and submit to the Commonwealth's Office of Management and Budget, within a term not to exceed sixty (60) days after the effective date of the Act, a Voluntary Pre-Retirement Program implementation assessment. If the assessment suggested that participation in the Program would result in savings in the average payroll and fringe benefit expenses of such Agency, the employer shall devise the Pre-Retirement Employer Plan.

The Authority did not submit its Voluntary Pre-Retirement Program Implementation Assessment and is not participating in the Program.

24. PUERTO RICO OVERSIGHT, MANAGEMENT AND ECONOMIC STABILITY ACT (PROMESA)

On June 30, 2016, President Obama signed into law the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA). The Act would create a structure for exercising federal oversight over the fiscal affairs of territories.

PROMESA would:

- Establish an Oversight Board with broad powers of budgetary and financial control over Puerto Rico.

  PROMESA would set up a Financial Management and Oversight Board with broad fiscal powers with seven voting members, along with the Puerto Rico governor (or designee) who would serve as an ex officio non-voting member. The President would appoint one member at his sole discretion. Congressional leaders would then each submit lists of candidates. The Speaker would submit two lists, with one restricted to candidates residing or doing business in Puerto Rico. The President would then choose members from those lists, although he could choose other candidates before September 1, 2016. Those candidates would be subject to Senate confirmation.

  PROMESA charges the Oversight Board with powers to approve, for territory governments or instrumentalities of those governments (such as public corporations or municipal governments), fiscal plans, budgets, voluntary agreements with bondholders, debt restructuring plans, and critical projects eligible for expedited permitting processes.

- Create procedures for adjusting debts accumulated by the Puerto Rico government and its instrumentalities and potentially for debts of other territories.

  PROMESA would set up a process for adjustment of debts by a territorial government or an instrumentality of a territorial government. Eligibility for the restructuring process would first require approval of at least five of the seven voting members of the Oversight Board to issue a "restructuring certificate". The Oversight Board would take the place of a debtor government or instrumentality in the proceedings to adjust debts. Thus, the roles of filing the petition and proposing a plan would be taken by the Oversight Board, not the debtor.

The debt restructuring process, in general, is set up to ensure fair and equitable treatment of creditors. The treatment of public sector pensions is not addressed explicitly, although pensions are typically included when governments undergo debt restructuring processes. The Oversight Board may order a study of pension systems if it determines that they are underfunded.

PROMESA would create a process for creditor collective actions, which resemble collective actions clauses (CACs) that are a common feature of sovereign debt contracts. CACs typically allow some subset of creditors holding a supermajority of the face value of a given debt category to enter into an agreement that would bind remaining creditors within that category. The Act would require the Oversight Board, in consultation with the Puerto Rico government and its subunits that have outstanding debts, to set up voting pools for the CAC process. Separate pools, in general, would correspond to the relative priority or security arrangements of bondholders. Triggering the CAC provision for a voting pool would require a two-thirds vote (by value of eligible debt), in which holders of at least half of the eligible debt participated. Creditors in those voting pools not assenting to a modification agreement would retain certain rights, which might be affected by a subsequent debt restructuring. Creditors agreeing to a CAC provision, in general, would then avoid debt restructuring.

PROMESA includes other diverse provisions as follows:

- Puerto Rico's right to determine its future political status is affirmed.
- The Governor, with board approval, could reduce the minimum wage for most workers in Puerto Rico under the age of 25 for a four-year period.
- An automatic stay on litigation;
- Accelerated processes for the review and permitting of infrastructure projects designated as "Critical Projects." A Revitalization Coordinator would be appointed by the Puerto Rico Governor from a list provided by the Oversight Board. The Revitalization Coordinator would oversee the selection and review of Critical Projects, in consultation with the Governor.

It is expected that the approval of the PROMESA Act by the United States Government may have a significant impact over the future of the Authority. However, the final effect could not be determined by management.

25. SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 16, 2017, the date in which the financial statements were available to be issued. The following is a major event:

Act 74 of 2016

Act 74 of 2016 was enacted on July 20, 2016. Under the Act, GDB is authorized to consolidate its investment in loans corresponding to financing and obligations granted to governmental entities of the Commonwealth of Puerto Rico, which are payable, under various laws, of legislative appropriations, whose total value in GDB books as of December 31, 2015, including accrued interest at the same date, amounts to approximately $4,366 million; to authorize GDB to restructure such consolidated borrowings into a single loan and to reduce the GDB's investment in loans from approximately $4,366 million to the value in the Bank's books in a new loan restructured to a term of thirty five (35) years at an interest rate of five (5) percent per annum; to establish the terms of repayment of the consolidated loan; to provide that no department, agency, public corporation or instrumentality of the Commonwealth of Puerto Rico may take additional financing or of any class based on the laws or legal authority that authorized the loans that, through this measure, are consolidated and restructured; to Authorize the Bank to terminate the loan agreements related to the original loans, which by this law will be consolidated and restructured into a single loan in accordance with the provisions thereof; and, for other related purposes. Authority's debt covered by this Act is detailed below:

	Obligations under Act 74-2016		
Description	**Principal**	**Interest**	**Total**
Line of Credit (ARRA)	$ 7,196,685	$ 1,437,765	$ 8,634,450
Line of Credit (World Plaza)	37,361,150	4,526,630	41,887,780
Loan (Fine Arts Center)	4,779,941	595,509	5,375,450
	$ 49,337,776	$ 6,559,904	$ 55,897,680

PFC Bonds

The legislature of the Commonwealth did not appropriate funds for the payment of PFC bonds. As such, the Authority was unable to pay in full a debt payment service due on July 1, 2016, and is not expected to make any additional service payments while the moratorium act is in effect. The Authority has $3,606,473 in outstanding PFC obligations that will remain unpaid and on default until such appropriations will resume.

Circular Letter 1300-08-17

On October 16, 2016, the Puerto Rico Department of Treasury issued Circular Letter 1300-08-17 whereby it is declaring that GDB's management understand that there is a substantial doubt as to GDB's ability to continue as a going concern. Further, the Circular Letter requires the Corporations and Municipalities to perform an impairment analysis of its deposits on GDB, in which the unrealizable deposits need to be accounted as an impairment loss. Refer to Note 4 for related adjustment and disclosure.

Act 5 of 2017

On January 2017, the Governor of the Commonwealth of Puerto Rico (The Commonwealth) signed into law The "Puerto Rico Financial Emergency and Fiscal Responsibility Act" (the Act). On Section 102 of the Act, the Legislative Assembly declared that the critical public financial emergency identified and declared to exist by the Legislative Assembly on numerous prior occasions continues and has worsened; that this ongoing financial emergency and the resulting impact upon the solvency of the Government of Puerto Rico and its instrumentalities continues to materially and adversely affect the ability to meet financial obligations and to provide for the health, safety, and welfare of the residents of Puerto Rico; and that resolution of the financial emergency and establishing fiscal responsibility within the Government of Puerto Rico and its instrumentalities is vitally necessary to assure the provision of those governmental services essential to the public health, safety, and welfare of the residents of Puerto Rico.

The Act is intended to facilitate and encourage a voluntary negotiation process under PROMESA between the Governor and/or the Puerto Rico Fiscal Agent and Financial Advisory Authority, on behalf of the Government of Puerto Rico, and the creditors of the Government of Puerto Rico and its instrumentalities. The Act authorizes the Government of Puerto Rico, within the parameters established by PROMESA, to designate certain services necessary for the health, safety and welfare of the residents of Puerto Rico and provided by the Government of Puerto Rico and its instrumentalities as "essential services", in accordance with the Constitution of Puerto Rico. The Act amends and repeals portions of the Puerto Rico Emergency Moratorium and Financial Rehabilitation Act, Act 21 of 2016, as amended by Act 40 of 2016 and Act 68 of 2016 (the "Moratorium Act"). The Moratorium Act, and executive orders issued by the Governor under the Moratorium Act (the "Executive Orders"), permitted the Government to withhold the timely payment of its obligations at a point in time before the enactment of PROMESA.

Based on the Act, an emergency period commencing on the effective date of the Act and ending upon May 1, 2017, which term may be extended by the Governor pursuant to an executive order for one additional period of three (3) months, was declared. Section 203 of the Act provides, among other, that, during the emergency period:

- the Governor shall pay debt service to the extent (a) possible after all essential services of the Commonwealth of Puerto Rico have been provided for; or (b) ordered to do so by the Oversight Board or any other board created under federal law. In the event that the provisions of the Act are in conflict with the provisions of any other law, the provisions of this Act shall prevail.
- the Governor may issue executive orders requiring the use of available resources to be deposited in a lockbox account under the sole control of the Puerto Rico Fiscal Agent and Financial Advisory Authority to pay for essential services as the Governor deems necessary to protect the health, safety, and welfare of the residents of Puerto Rico. The Governor may take any and all actions that the Governor deems reasonable and necessary to preserve the ability of the Commonwealh or an instrumentality of the Commonwealth to continue providing essential services to residents of Puerto Rico.
- the Governor may issue executive orders establishing priority rules for the disbursement of public funds when resources available for a fiscal year are insufficient to cover the appropriations made for that fiscal year.
- notwithstanding Section 4(c) of Act No. 147 of June 18, 1980, as amended, the Governor may reprioritize certain services and expenses to a higher payment priority.
- the Governor may issue executive orders as the Governor deems necessary or advisable to assure the payment of a debt obligation of the Commowealth or an instrumentality of the Commonwealth.